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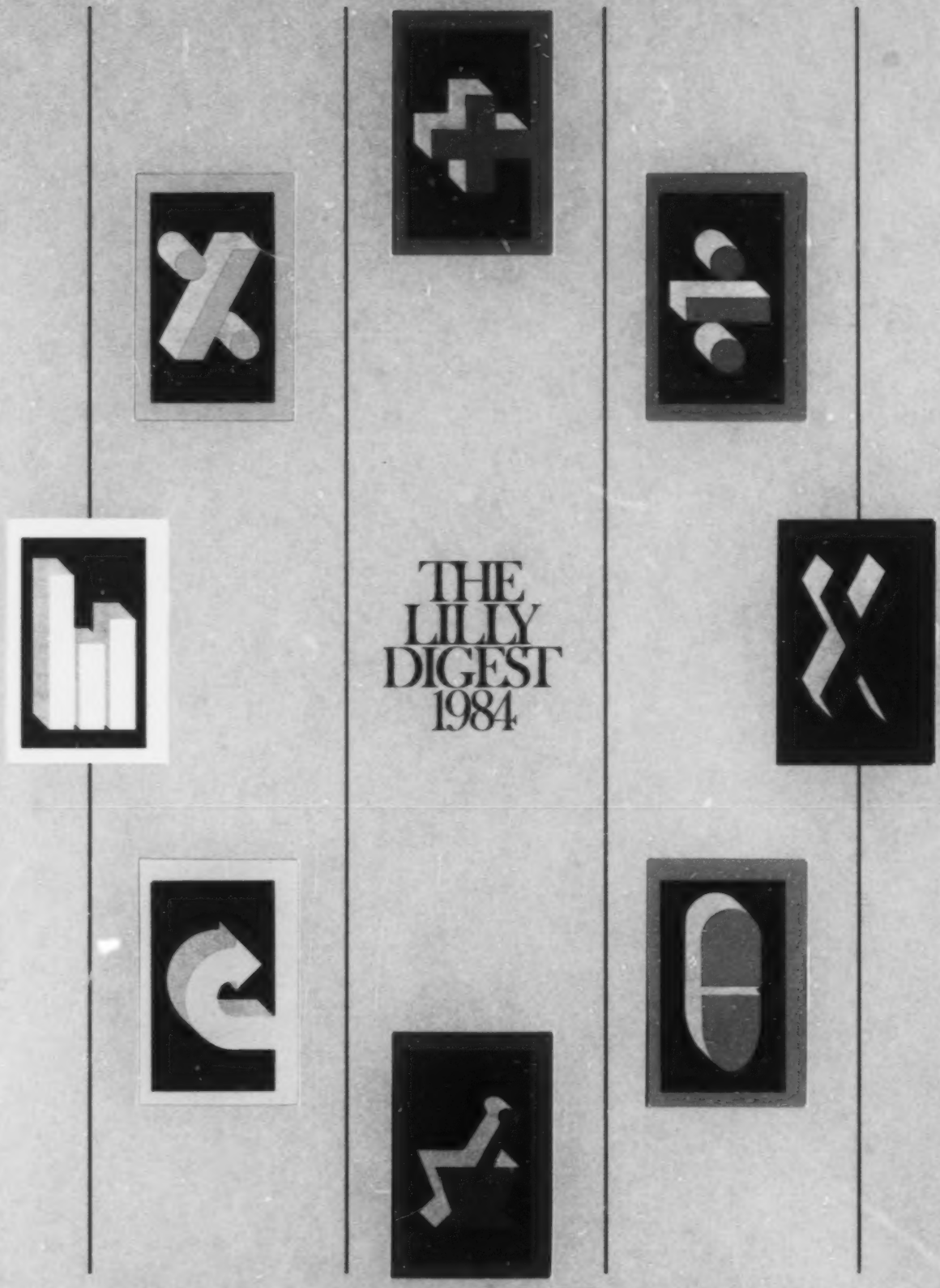

THE LILLY DIGEST 1984

A summary of the 1983 operations of 1,547 community pharmacies
The most comprehensive report of community pharmacy operations available

Published annually in September of the following year as a service to community pharmacy in the interest of sound management

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Foreword

The LILLY DIGEST is published each year as a service to the profession of pharmacy. It is designed as a resource to be used by independent community pharmacy managers in evaluating the operating figures of their individual stores in order to assist them in making productive management decisions. The DIGEST also can be of value in determining overall trends in pharmacy operations. It contains information that is voluntarily submitted and represents current operating statistics of a reliable cross section of independent community pharmacies throughout the United States. Since there is no attempt to define or structure the sample, the DIGEST does not claim to describe what is optimal, satisfactory, or successful. It simply represents the averages of actual operations that were reported. Each DIGEST participant received a personalized analysis of his or her operating data, with constructive suggestions for improvement when appropriate.

The "Heart of the LILLY DIGEST" (pages 23 through 35) contains 29 summaries of 1983 operating figures, arranged according to total sales volume and daily prescription activity. When comparisons are desired, a manager can easily isolate the summary that is most similar to his or her own.

Eli Lilly and Company is pleased to present this service to all who are interested in independent community pharmacy practice. We are sincerely grateful to all pharmacists who have contributed their operating figures to the DIGEST, and it is our hope that this edition will prove helpful to pharmacy managers throughout the United States.

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Community Pharmacy Operations—1983

During 1983, total sales increased in the average independent community pharmacy that reported operating figures to the LILLY DIGEST (Table 1). The growth rate was 6.2%, below the average annual growth rate of 9.4% observed over the past decade. It is noteworthy that the 1983 operating year recorded another milestone in LILLY DIGEST history—total annual sales for the typical DIGEST pharmacy surpassed the half-million-dollar mark. The cost of goods sold increased at a faster rate than total sales, which resulted in a decline in gross margin as a percent of sales. However, total expenses also dropped percentagewise during 1983, so that net profit before taxes remained unchanged at 2.9 percent of sales.

Prescription sales again outpaced other sales with a 13.5% gain, in contrast to a 2.7% decline in other sales (Table 2). For the fourth consecutive year, total prescription revenue accounted for over half of the sales volume in the typical community pharmacy, at 58.5%. The prescription department's contribution to total sales volume in the average LILLY DIGEST pharmacy for 1983 was the largest, both in dollars and as a percent of sales, in DIGEST history.

The cost-of-goods-sold figure rose again during 1983 to 66.9% of sales. Associated with this was the decline of gross margin to the lowest level since 1951—33.1% of sales.

Although total expenses fell percentagewise, they rose by almost $7,000 (up 4.5% from the 1982 figure). Managers typically attempt to offset a rising cost of goods sold by reducing or holding total expenditures, so that net profit before taxes will remain stable. During the 1983 operating year, employees' wages, although slightly higher dollarwise, accounted for less of the sales dollar. The reduction (0.5%) was sufficient to offset the decline in gross margin, with the result that net profit was unchanged at 2.9% of sales. The average proprietor's salary was greater in dollar amounts but remained at 6% of sales. Rent, too, was the same at 2.4% of total sales. Miscellaneous operating costs (including all expenses other than proprietor's or manager's salary, employees' wages, and rent) rose over $3,600, an increase of 6.7%. However, these costs took the same share of sales dollars as in the previous year—11%.

Net profit before taxes showed an increase of $932—up 6% from the previous year's figure. Total income (proprietor's salary plus net profit before taxes) gained 6.2% in dollars but remained at the same percentage (8.9%) reported in 1982. The total income for the proprietor in the average DIGEST pharmacy was over $47,000 before taxes for 1983.

The higher prescription sales resulted from a 3.3% increase in the number of prescriptions dispensed, accompanied by a rise of 98 cents in the average prescription charge, from $9.91 to $10.89. This was the first time in DIGEST history that the average prescription charge exceeded the $10 level. The share of new prescriptions increased by 466, to 48.9% of total prescriptions dispensed during 1983. Renewed prescriptions were higher by 437 (up 3.1%) than the previous year's figure and accounted for 51.1% of prescriptions sold. As a result, total prescriptions continued a three-year growth trend, with an increase of 903 prescriptions dispensed. During 1983, 28,404 prescriptions were dispensed in the average independent community pharmacy and established a new LILLY DIGEST record.

Total inventory dollars increased again; however, inventory expressed as a percentage of sales declined from 15.3 to 14.9%. Prescription inventory required about $3,500 more in 1983 than in the previous year but decreased as a percent of sales (down 0.2% to 10.7%). As a result, the prescription department's sales productivity moved from $9.19 to $9.34 per stock dollar. Other merchandise inventory was lower in dollars (down 1.6%) but increased from 20.7% to 20.9% of other sales. This caused a small decline in productivity, from $4.84 to $4.79 per dollar of inventory investment.

Merchandise selling space in the average independent community pharmacy remained essentially in the 2,500 square foot range. Sales productivity per square foot of floor area advanced $16.48, an 8.4% increase from 1982 to $211.56. The hours of operation in the typical LILLY DIGEST pharmacy remained unchanged for 1983 at 62 hours per week.

Table 1 *Current trends in pharmacy operations*

Averages per Pharmacy	1983 1,547 Pharmacies	1982 1,528 Pharmacies	Amount and Percent of Change
Total sales	$528,864—100.0%	$498,021—100.0%	+$30,843— 6.2%
Cost of goods sold	353,673— 66.9%	330,577— 66.4%	+$23,096— 7.0%
Gross margin	$175,191— 33.1%	$167,444— 33.6%	+$ 7,747— 4.6%
Expenses			
Proprietor's or manager's salary	$ 31,775— 6.0%	$ 29,965— 6.0%	+$ 1,810— 6.0%
Employees' wages	57,323— 10.8%	56,454— 11.3%	+$ 869— 1.5%
Rent	12,489— 2.4%	12,018— 2.4%	+$ 471— 3.9%
Heat, light, and power	4,617— 0.9%	4,437— 0.9%	+$ 180— 4.1%
Accounting, legal, and other professional fees	2,388— 0.5%	2,305— 0.5%	+$ 298—12.9%
Taxes (except on buildings, income, and profit) and licenses	8,074— 1.5%	7,455— 1.5%	+$ 619— 8.3%
Insurance (except on buildings)	5,544— 1.0%	5,191— 1.0%	+$ 353— 6.8%
Interest paid	4,099— 0.8%	4,023— 0.8%	+$ 76— 1.9%
Repairs	1,977— 0.4%	1,874— 0.4%	+$ 103— 5.5%
Delivery	2,262— 0.4%	2,329— 0.5%	−$ 67— 2.9%
Advertising	5,658— 1.1%	5,422— 1.1%	+$ 236— 4.4%
Depreciation (except on buildings)	5,663— 1.1%	4,898— 1.0%	+$ 765—15.6%
Bad debts charged off	751— 0.1%	647— 0.1%	+$ 104—16.1%
Telephone	1,948— 0.4%	1,776— 0.4%	+$ 172— 9.7%
Miscellaneous	15,123— 2.8%	14,082— 2.8%	+$ 826— 5.9%
Total expenses	$159,691— 30.2%	$152,876— 30.7%	+$ 6,815— 4.5%
Net profit (before taxes)	$ 15,500— 2.9%	$ 14,568— 2.9%	+$ 932— 6.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 47,275— 8.9%	$ 44,533— 8.9%	+$ 2,742— 6.2%
Value of inventory at cost	$ 78,946— 14.9%	$ 76,216— 15.3%	+$ 2,730— 3.6%
Annual rate of turnover of inventory	4.6 times	4.5 times	
Hours per week pharmacy was open	62	62	no change

NOTE: These national averages are presented to give a composite picture of the average LILLY DIGEST pharmacy. Comparisons for analysis should be based on the operations of pharmacies of comparable sales and prescription size which appear in one of the 29 arrangements in the "Heart of the LILLY DIGEST."

Table 2 *Current trends in prescription department operations*

Averages per Pharmacy	1983 1,547 Pharmacies	1982 1,528 Pharmacies	Amount and Percent of Change
Sales			
Prescription	$309,354— 58.5%	$272,527— 54.7%	+$36,827—13.5%
Other	219,510— 41.5%	225,494— 45.3%	−$ 5,984— 2.7%
Total	$528,864—100.0%	$498,021—100.0%	+$30,843— 6.2%
Value of inventory at cost and as a percent of sales			
Prescription	$ 33,132— 10.7%	$ 29,642— 10.9%	+$ 3,490—11.8%
Other	45,814— 20.9%	46,574— 20.7%	−$ 760— 1.6%
Total	$ 78,946— 14.9%	$ 76,216— 15.3%	+$ 2,730— 3.6%
Sales per dollar invested in inventory			
Prescription	$9.34	$9.19	+$ 0.15— 1.6%
Other	4.79	4.84	−$ 0.05— 1.0%
Size of area (square feet)*			
Prescription	390— 15.7%	393— 15.6%	− 3— 0.8%
Other	2,089— 84.3%	2,131— 84.4%	− 42— 2.0%
Total	2,479—100.0%	2,524—100.0%	− 45— 1.8%
Sales per square foot*			
Prescription	$787.95	$687.87	+$100.08—14.5%
Other	103.94	104.23	−$ 0.29— 0.3%
Total	211.56	195.08	+$ 16.48— 8.4%
Number of prescriptions dispensed			
New	13,887— 48.9%	13,421— 48.8%	+ 466— 3.5%
Renewed	14,517— 51.1%	14,080— 51.2%	+ 437— 3.1%
Total	28,404—100.0%	27,501—100.0%	+ 903— 3.3%
Prescription charge	$10.89	$9.91	+$ 0.98— 9.9%

*Based on averages of pharmacies that reported all data

Sales and Expenses

Sales volume and growth provide a foundation on which a successful pharmacy operation is built, but increasing sales activity itself is not the only objective of owner-managers. Of equal importance is management's need to control costs, so that an adequate net profit and return on investment will be realized.

LILLY DIGEST sales figures are adjusted to exclude refunds, returns, and allowances to customers. Sales and excise taxes are also deducted, and the cost of goods sold includes freight-in but is reduced by supplier discounts.

Sales volume levels and operating statistics vary substantially among different types of pharmacies. Therefore, when the data are used for comparative purposes, consideration should be given to the type of operation under evaluation. For example, a small medical office building pharmacy differs substantially from a large shopping center outlet in many respects.

Major operating statistics vary with total sales volume, as Chart 1 and Table 3 indicate. Consistent with the trends reported in earlier editions of the DIGEST, gross margin and total expenses tend to decline percentagewise as total sales rise. As a percent of sales, net profit tends to shrink at higher sales volumes, since total expenses decline at a slower rate than gross margin. Chart 1 shows the large share of total expenses that the total wage package represents. Proprietor's salary falls percentagewise as total sales increase, whereas employees' wages rise; however, the total package tends to decline. Since the total wage package has a significant impact on total expenses and, consequently, net profit, management often looks to employee productivity, with the objective of achieving full utilization of personnel.

Gross Margin—The gross margin decreases as a percent of sales as total sales volume increases. On the other hand, as the share of prescription sales to total sales decreases, Table 3 shows that the gross margin also declines. Pharmacies reporting total sales under $150,000 posted prescription revenue of 76.7% of sales and a gross margin of 36%. Higher-volume stores (over $1,500,000) recorded prescription activity amounting to 35.9% of sales and a gross margin of 28.8%. These figures suggest that as sales volume expands, the merchandise mix changes and a larger proportion of sales reside in lower-margin departments.

Expenses—Since many expenses incurred by a pharmacy are fixed, total expenses appear high as a percent of sales when sales volume is below $150,000. As sales grow, this fixed portion tends to decline as a percentage and results in a gradual decrease in total expenses (from 36.2% to 26.4%) (Table 3).

Salary and Wages—The total wage package represents a significant portion of the total expense figure and, therefore, has a major influence on net profit. Proprietor's salary increases from $18,020 in the lowest-volume pharmacies to $58,552 in operations generating over $1,500,000 in annual sales. However, when expressed as a percent of sales, proprietor's salary declined from 15.1% to 2.9%. Employees' wages showed the opposite trend; they ranged from 5.1% in stores whose total sales were less than $150,000 to 11.7% in pharmacies with the largest sales volume. This greater expenditure for employees' wages may be associated with a larger staff needed to operate a merchandise-oriented pharmacy that remains open more hours per week. It should also be said that the pharmacist-owner in larger operations may spend more hours in management tasks and, therefore, may require additional pharmacists for the dispensing function.

Miscellaneous Operating Costs—The 12 expense items summarized in this category (Table 3, in braces) range from 11.6% of sales in the lowest sales group to 9.6% in the highest. These percentage values appear relatively constant and do not show a definite trend.

Rent—Rental expense tends to remain relatively constant as a percent of sales as annual sales increase. Rental costs also vary according to the location and size of the pharmacy. Rent may seem high as a percent of sales in newer pharmacies, because it is usually a fixed charge and sales have not yet reached their full potential. A comprehensive discussion of rent may be found on pages 42 and 43.

Chart 1 *Selected operating statistics according to sales volume*

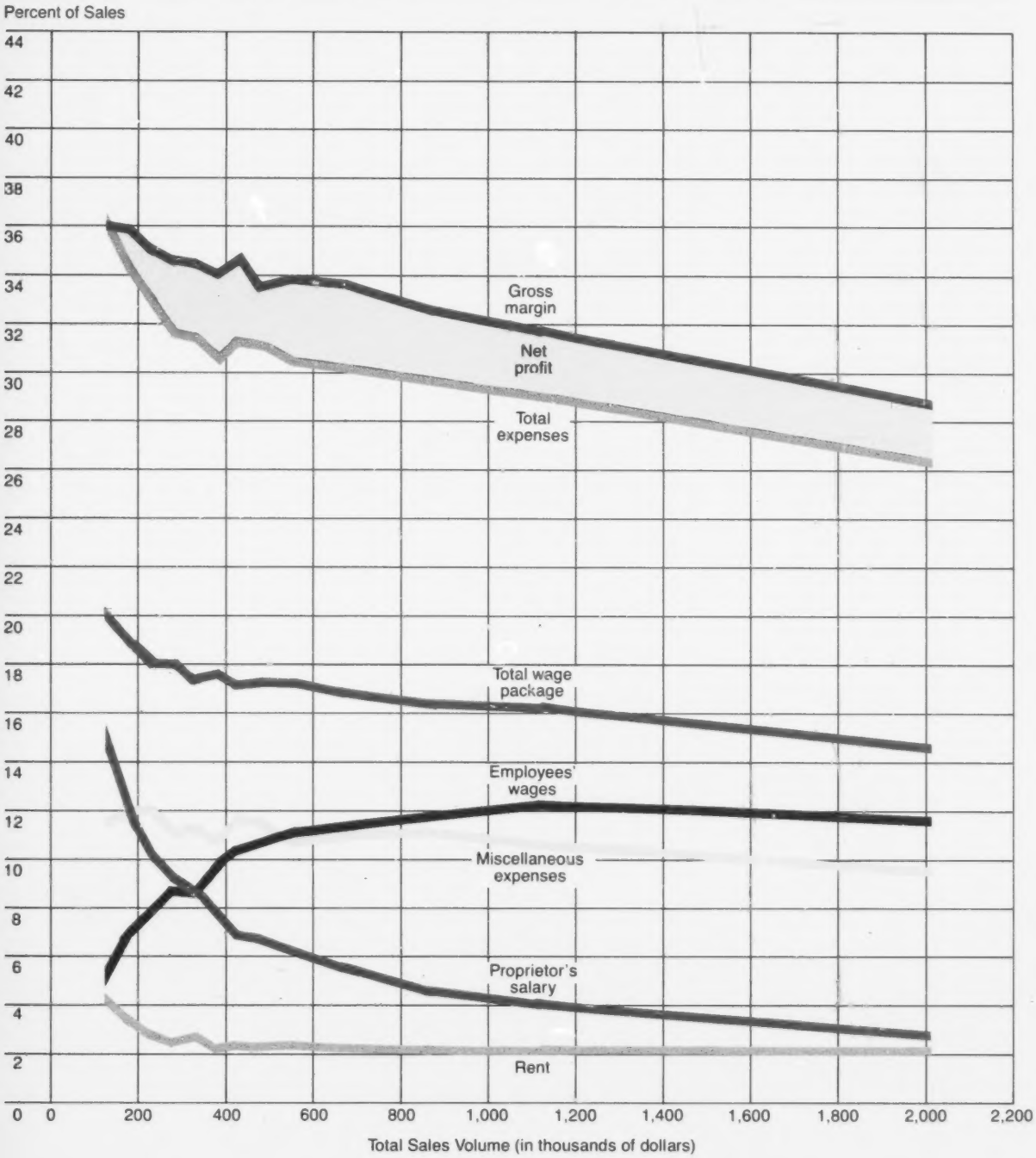


Table 3 *Summary of sales volume in 1983*

Averages per Pharmacy	Total Sales under $150,000 (60 Pharmacies)	Total Sales $150,000 to $200,000 (99 Pharmacies)
Sales		
Prescription	$ 91,743— 76.7%	$127,638— 71.7%
Other	27,888— 23.3%	50,297— 28.3%
Total	$119,631—100.0%	$177,935—100.0%
Cost of goods sold	76,602— 64.0%	114,011— 64.1%
Gross margin	$ 43,029— 36.0%	$ 63,924— 35.9%
Expenses		
Proprietor's or manager's salary	$ 18,020— 15.1%	$ 21,365— 12.0%
Employees' wages	6,082— 5.1%	12,336— 6.9%
Rent	5,234— 4.4%	6,025— 3.4%
Heat, light, and power	1,248— 1.0%	1,991— 1.1%
Accounting, legal, and other professional fees	517— 0.4%	1,057— 0.6%
Taxes (except on buildings, income, and profit) and licenses	1,766— 1.5%	2,461— 1.4%
Insurance (except on buildings)	1,107— 0.9%	1,782— 1.0%
Interest paid	1,109— 0.9%	2,094— 1.2%
Repairs	519— 0.4%	635— 0.4%
Delivery	789— 0.7%	947— 0.5%
Advertising	1,044— 0.9%	2,033— 1.1%
Depreciation (except on buildings)	1,458— 1.2%	2,108— 1.2%
Bad debts charged off	219— 0.2%	153— 0.1%
Telephone	816— 0.7%	1,042— 0.6%
Miscellaneous	3,326— 2.8%	4,802— 2.7%
	11.6%	11.9%
Total expenses	$ 43,254— 36.2%	$ 60,831— 34.2%
Net profit (before taxes)	$ 225— 0.2%	$ 3,093— 1.7%
Add proprietor's withdrawals	18,020— 15.1%	21,365— 12.0%
Total income of self-employed proprietor (before taxes on income and profits)	$ 17,795— 14.9%	$ 24,458— 13.7%
Value of inventory at cost and as a percent of sales		
Prescription	$ 14,738— 16.1%	$ 17,992— 14.1%
Other	6,898— 24.7%	15,871— 31.6%
Total	$ 21,636— 18.1%	$ 33,863— 19.0%
Annual rate of turnover of inventory	3.7 times	3.4 times
Size of area and sales per square foot*	sq. ft.	sq. ft.
Prescription	293 $315.35	321 $394.71
Other	733 38.69	960 53.20
Total	1,026 117.73	1,281 138.78
Sales per dollar invested in inventory		
Prescription	$6.22	$7.09
Other	4.04	3.17
Net profit per dollar invested in inventory	($0.010)	$0.090
Number of prescriptions dispensed		
New	4,361— 50.6%	5,962— 49.3%
Renewed	4,260— 49.4%	6,139— 50.7%
Total	8,621—100.0%	12,101—100.0%
Prescription charge	$10.64	$10.55
Number of hours per week		
Pharmacy was open	49 hours	52 hours
Worked by proprietor	41 hours	44 hours
Worked by employed pharmacist(s)	8 hours	10 hours

*Based on averages of pharmacies that reported all data

Total Sales $200,000 to $250,000 (115 Pharmacies)	Total Sales $250,000 to $300,000 (140 Pharmacies)	Total Sales $300,000 to $350,000 (139 Pharmacies)	Total Sales $350,000 to $400,000 (145 Pharmacies)
$157,608— 69.5%	$192,131— 69.8%	$213,857— 65.8%	$243,775— 65.0%
69,053— 30.5%	83,147— 30.2%	111,323— 34.2%	131,152— 35.0%
$226,661—100.0%	$275,278—100.0%	$325,180—100.0%	$374,927—100.0%
147,368— 65.0%	180,160— 65.4%	213,093— 65.5%	246,895— 65.9%
$ 79,293— 35.0%	$ 95,118— 34.6%	$112,087— 34.5%	$128,032— 34.1%
$ 23,012— 10.2%	$ 25,267— 9.2%	$ 28,210— 8.7%	$ 29,241— 7.8%
17,771— 7.8%	24,089— 8.8%	28,301— 8.7%	36,661— 9.8%
6,579— 2.9%	7,278— 2.6%	9,143— 2.8%	8,070— 2.2%
2,415— 1.1%	2,635— 1.0%	3,198— 1.0%	3,600— 1.0%
1,177— 0.5%	1,551— 0.6%	1,957— 0.6%	1,713— 0.5%
3,514— 1.6%	3,834— 1.4%	4,751— 1.5%	5,455— 1.4%
2,541— 1.1%	2,754— 1.0%	3,370— 1.0%	4,226— 1.1%
2,731— 1.2%	2,504— 0.9%	3,126— 1.0%	3,497— 0.9%
923— 0.4%	920— 0.3%	1,148— 0.3%	1,252— 0.3%
1,453— 0.7%	1,561— 0.6%	1,625— 0.5%	1,898— 0.5%
2,048— 0.9%	2,452— 0.9%	3,303— 1.0%	3,966— 1.1%
2,963— 1.3%	2,971— 1.1%	4,049— 1.2%	3,834— 1.0%
234— 0.1%	438— 0.1%	534— 0.2%	800— 0.2%
1,195— 0.5%	1,320— 0.5%	1,624— 0.5%	1,512— 0.4%
5,899— 2.6%	7,505— 2.7%	7,996— 2.5%	9,002— 2.4%
12.0%	11.1%	11.3%	10.8%
$ 74,455— 32.9%	$ 87,079— 31.7%	$102,335— 31.5%	$114,727— 30.6%
$ 4,838— 2.1%	$ 8,039— 2.9%	$ 9,752— 3.0%	$ 13,305— 3.5%
23,012— 10.2%	25,267— 9.2%	28,210— 8.7%	29,241— 7.8%
$ 27,850— 12.3%	$ 33,306— 12.1%	$ 37,962— 11.7%	$ 42,546— 11.3%
$ 22,116— 14.0%	$ 25,374— 13.2%	$ 27,019— 12.6%	$ 26,927— 11.0%
17,844— 25.8%	22,128— 26.6%	28,670— 25.8%	32,261— 24.6%
$ 39,960— 17.6%	$ 47,502— 17.3%	$ 55,689— 17.1%	$ 59,188— 15.8%
3.8 times	3.9 times	4.0 times	4.3 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
308 $507.44	328 $583.91	341 $631.73	386 $629.21
1,147 61.11	1,315 63.94	1,576 69.68	1,709 77.30
1,455 155.71	1,643 167.80	1,917 169.60	2,095 178.94
$7.13	$7.57	$7.92	$9.05
3.87	3.76	3.88	4.07
$0.120	$0.170	$0.180	$0.220
7,249— 48.7%	8,667— 49.2%	9,224— 46.7%	10,687— 46.6%
7,627— 51.3%	8,956— 50.8%	10,525— 53.3%	12,250— 53.4%
14,876—100.0%	17,623—100.0%	19,749—100.0%	22,937—100.0%
$10.60	$10.90	$10.83	$10.63
55 hours	56 hours	58 hours	58 hours
47 hours	48 hours	49 hours	48 hours
16 hours	18 hours	20 hours	24 hours

(Continued)

Table 3 *Summary of sales volume in 1983 (continued)*

Averages per Pharmacy	Total Sales $400,000 to $450,000 (111 Pharmacies)		Total Sales $450,000 to $500,000 (114 Pharmacies)	
Sales				
Prescription	$286,840	67.8%	$290,511	61.3%
Other	136,001	32.2%	183,697	38.7%
Total	$422,841	100.0%	$474,208	100.0%
Cost of goods sold	276,001	65.3%	314,956	66.4%
Gross margin	$146,840	34.7%	$159,252	33.6%
Expenses				
Proprietor's or manager's salary	$ 29,166	6.9%	$ 31,790	6.7%
Employees' wages	43,739	10.3%	50,326	10.6%
Rent	10,155	2.4%	10,839	2.3%
Heat, light, and power	3,924	0.9%	4,454	0.9%
Accounting, legal, and other professional fees	2,084	0.5%	2,375	0.5%
Taxes (except on buildings, income, and profit) and licenses	6,823	1.6%	7,557	1.6%
Insurance (except on buildings)	4,637	1.1%	5,131	1.1%
Interest paid	3,967	0.9%	4,424	0.9%
Repairs	1,611	0.4%	1,946	0.4%
Delivery	1,872	0.5%	2,358	0.5%
Advertising	4,738	1.1%	5,614	1.2%
Depreciation (except on buildings)	4,541	1.1%	5,260	1.1%
Bad debts charged off	723	0.2%	696	0.2%
Telephone	1,785	0.4%	1,825	0.4%
Miscellaneous	12,716	3.0%	13,438	2.8%
		11.7%		11.6%
Total expenses	$132,481	31.3%	$148,033	31.2%
Net profit (before taxes)	$ 14,359	3.4%	$ 11,219	2.4%
Add proprietor's withdrawals	29,166	6.9%	31,790	6.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 43,525	10.3%	$ 43,009	9.1%
Value of inventory at cost and as a percent of sales				
Prescription	$ 32,529	11.3%	$ 31,279	10.8%
Other	32,615	24.0%	45,135	24.6%
Total	$ 65,144	15.4%	$ 76,414	16.1%
Annual rate of turnover of inventory	4.4 times		4.2 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.	
Prescription	404	$708.64	389	$750.06
Other	1,869	72.91	2,020	90.30
Total	2,273	186.01	2,409	196.90
Sales per dollar invested in inventory				
Prescription	$8.82		$9.29	
Other	4.17		4.07	
Net profit per dollar invested in inventory	$0.220		$0.150	
Number of prescriptions dispensed				
New	12,527	47.3%	13,071	49.9%
Renewed	13,949	52.7%	13,139	50.1%
Total	26,476	100.0%	26,210	100.0%
Prescription charge	$10.83		$11.08	
Number of hours per week				
Pharmacy was open	59 hours		62 hours	
Worked by proprietor	48 hours		46 hours	
Worked by employed pharmacist(s)	28 hours		39 hours	

*Based on averages of pharmacies that reported all data

Total Sales $500,000 to $600,000 (167 Pharmacies)	Total Sales $600,000 to $750,000 (169 Pharmacies)	Total Sales $750,000 to $1,000,000 (142 Pharmacies)	Total Sales $1,000,000 to $1,500,000 (112 Pharmacies)	Total Sales over $1,500,000 (34 Pharmacies)
$351,921— 64.1%	$389,388— 58.3%	$503,910— 58.2%	$ 577,054— 48.9%	$ 723,913— 35.9%
197,145— 35.9%	278,634— 41.7%	362,390— 41.8%	602,412— 51.1%	1,290,497— 64.1%
$549,066—100.0%	$668,022—100.0%	$866,300—100.0%	$1,179,466—100.0%	$2,014,410—100.0%
362,864— 66.1%	442,753— 66.3%	583,694— 67.4%	803,860— 68.2%	1,434,626— 71.2%
$186,202— 33.9%	$225,269— 33.7%	$282,606— 32.6%	$ 375,606— 31.8%	$ 579,784— 28.8%
$ 33,873— 6.2%	$ 37,240— 5.6%	$ 39,178— 4.5%	$ 46,871— 4.0%	$ 58,552— 2.9%
61,008— 11.1%	75,599— 11.3%	102,963— 11.9%	144,741— 12.3%	236,442— 11.7%
12,924— 2.4%	15,241— 2.3%	18,718— 2.2%	26,424— 2.2%	43,524— 2.2%
4,829— 0.9%	5,331— 0.8%	6,824— 0.8%	10,012— 0.8%	15,206— 0.8%
2,487— 0.4%	2,902— 0.4%	3,906— 0.5%	4,483— 0.4%	6,511— 0.3%
9,212— 1.7%	10,303— 1.6%	13,196— 1.5%	17,588— 1.5%	29,625— 1.5%
6,306— 1.1%	7,310— 1.1%	9,013— 1.0%	11,627— 1.0%	17,777— 0.9%
3,342— 0.6%	4,772— 0.7%	5,986— 0.7%	8,152— 0.7%	11,456— 0.6%
2,117— 0.4%	2,517— 0.4%	3,372— 0.4%	4,415— 0.4%	6,928— 0.3%
2,734— 0.5%	2,798— 0.4%	3,554— 0.4%	3,468— 0.3%	5,055— 0.3%
5,052— 0.9%	6,957— 1.0%	10,031— 1.2%	13,877— 1.2%	20,958— 1.0%
5,399— 1.0%	7,361— 1.1%	8,764— 1.0%	13,311— 1.1%	17,789— 0.9%
997— 0.2%	952— 0.2%	1,098— 0.1%	1,286— 0.1%	2,016— 0.1%
2,244— 0.4%	2,251— 0.3%	2,703— 0.3%	3,527— 0.3%	4,517— 0.2%
15,114— 2.7%	20,097— 3.0%	27,957— 3.2%	34,497— 2.9%	55,066— 2.7%
10.8%	11.0%	11.1%	10.7%	9.6%
$167,638— 30.5%	$201,631— 30.2%	$257,263— 29.7%	$ 344,279— 29.2%	$ 531,422— 26.4%
$ 18,564— 3.4%	$ 23,638— 3.5%	$ 25,343— 2.9%	$ 31,327— 2.6%	$ 48,362— 2.4%
33,873— 6.2%	37,240— 5.6%	39,178— 4.5%	46,871— 4.0%	58,552— 2.9%
$ 52,437— 9.6%	$ 60,878— 9.1%	$ 64,521— 7.4%	$ 78,198— 6.6%	$ 106,914— 5.3%
$ 36,070— 10.2%	$ 39,573— 10.2%	$ 46,871— 9.3%	$ 54,871— 9.5%	$ 63,093— 8.7%
43,888— 22.3%	57,989— 20.8%	70,751— 19.5%	111,123— 18.4%	196,735— 15.2%
$ 79,958— 14.6%	$ 97,562— 14.6%	$117,622— 13.6%	$ 165,994— 14.1%	$ 259,828— 12.9%
4.7 times	4.7 times	5.2 times	5.0 times	5.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
392 $892.95	425 $912.67	456 $1,091.08	541 $1,067.55	532 $1,379.71
2,161 91.54	2,702 103.86	3,088 120.17	4,003 150.30	5,313 228.07
2,553 214.70	3,127 213.85	3,544 244.98	4,544 259.59	5,845 332.89
$9.76	$9.84	$10.75	$10.52	$11.47
4.49	4.80	5.12	5.42	6.56
$0.230	$0.240	$0.220	$0.190	$0.190
15,390— 48.0%	16,875— 49.0%	23,267— 49.4%	26,240— 49.8%	35,523— 52.8%
16,640— 52.0%	17,586— 51.0%	23,810— 50.6%	26,486— 50.2%	31,740— 47.2%
32,030—100.0%	34,461—100.0%	47,077—100.0%	52,726—100.0%	67,263—100.0%
$10.99	$11.30	$10.70	$10.94	$10.76
64 hours	65 hours	69 hours	74 hours	84 hours
48 hours	47 hours	47 hours	48 hours	48 hours
45 hours	50 hours	67 hours	80 hours	116 hours

Net Profit—No definitive relationship between net profit and sales volume can be observed in Chart 1, although the lower and higher sales-volume pharmacies tend to show a smaller net profit as a percentage of total sales. A more detailed discussion of net profit can be found on page 36.

Inventory—Typically, the largest investment in the average pharmacy is merchandise inventory, and, as such, its control significantly influences the profitability of the operation. The elements of an effective inventory control program include purchases commensurate with sales, allowing for seasonal variation and changing usage patterns, as well as monitoring for pilferage. The challenge of productive inventory management is to support an upward trend in sales activity while keeping the investment at the lowest level consistent with adequate customer service.

A widely accepted measure of the effectiveness of an inventory control program is the "turnover ratio." This ratio is determined by dividing the cost of goods sold by the average inventory at cost (beginning plus ending inventory divided by 2). The turnover rate is the number of times the average inventory is sold and replaced during the year. Table 3 shows that the turnover rate tends to increase with advancing sales volume, even though the inventory dollar investment is greater.

Pharmacy Hours—As shown in Table 3, the number of hours a pharmacy is open is directly related to sales volume. During 1983, the average independent community pharmacy was open 62 hours per week—unchanged from 1982. In the lower sales categories (under $450,000), the average pharmacy was open fewer than 60 hours per week. Stores with sales volume in the $450,000 to $1,000,000 range were open between 62 and 69 hours per week. Above the $1,000,000 level, the average hours of pharmacy operation ranged from 74 to 84 hours. Management's decision to remain open longer must be based on the profitability of the extended hours. Additional operating expenses must be offset by sales productivity for the extra hours, or net profit will be reduced.

During 1983, the number of hours worked by employed pharmacists was generally lower than for the previous year in pharmacies with sales volume above $300,000. It is interesting to note that these stores also tended to post fewer hours open for 1983 as compared with the preceding year. The shorter business hours and the greater use of auxiliary personnel or mechanical methods to improve productivity may, in part, explain this trend. When management undertakes an examination of employed pharmacist hours worked and pharmacy hours open, it is suggested that the tables concerning geographic region, location, and prescription activity also be reviewed.

The average prescription charge advanced 9.9% during 1983 to $10.89—up 98 cents from the 1982 figure of $9.91. This statistic has been increasing in recent years, and the uptrend is occasionally cited as "proof" that prescription prices are rising. Such a conclusion cannot be drawn from the data, since the average prescription charge includes other variables in addition to price—particularly the number of doses dispensed.

Table 4 *Averages of pharmacy operations—1974-1983 (based on all pharmacies reporting)*

Expressed in Dollars

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Inventory at Cost
1974	$272,340	$174,922	$ 97,418	$22,302	$31,427	$ 6,738	$26,939	$ 87,406	$10,012	$46,237
1975	293,785	189,624	104,161	22,469	34,471	7,248	28,972	93,160	11,001	48,781
1976	309,725	200,871	108,854	22,597	36,417	7,758	31,072	97,844	11,010	51,008
1977	322,755	209,954	112,801	22,622	38,063	8,080	33,013	101,778	11,023	53,382
1978	345,932	225,651	119,651	23,896	39,914	8,436	35,938	108,184	11,467	56,942
1979	391,681	257,334	134,347	25,346	46,759	9,783	40,844	122,732	11,615	64,066
1980	416,161	273,390	142,771	26,001	49,128	10,127	43,731	128,987	13,784	67,020
1981	439,133	288,421	150,712	27,983	50,689	10,886	47,181	136,739	13,973	68,768
1982	498,021	330,577	167,444	29,965	56,454	12,018	54,439	152,876	14,568	76,216
1983	528,864	353,673	175,191	31,775	57,323	12,489	58,104	159,691	15,500	78,946

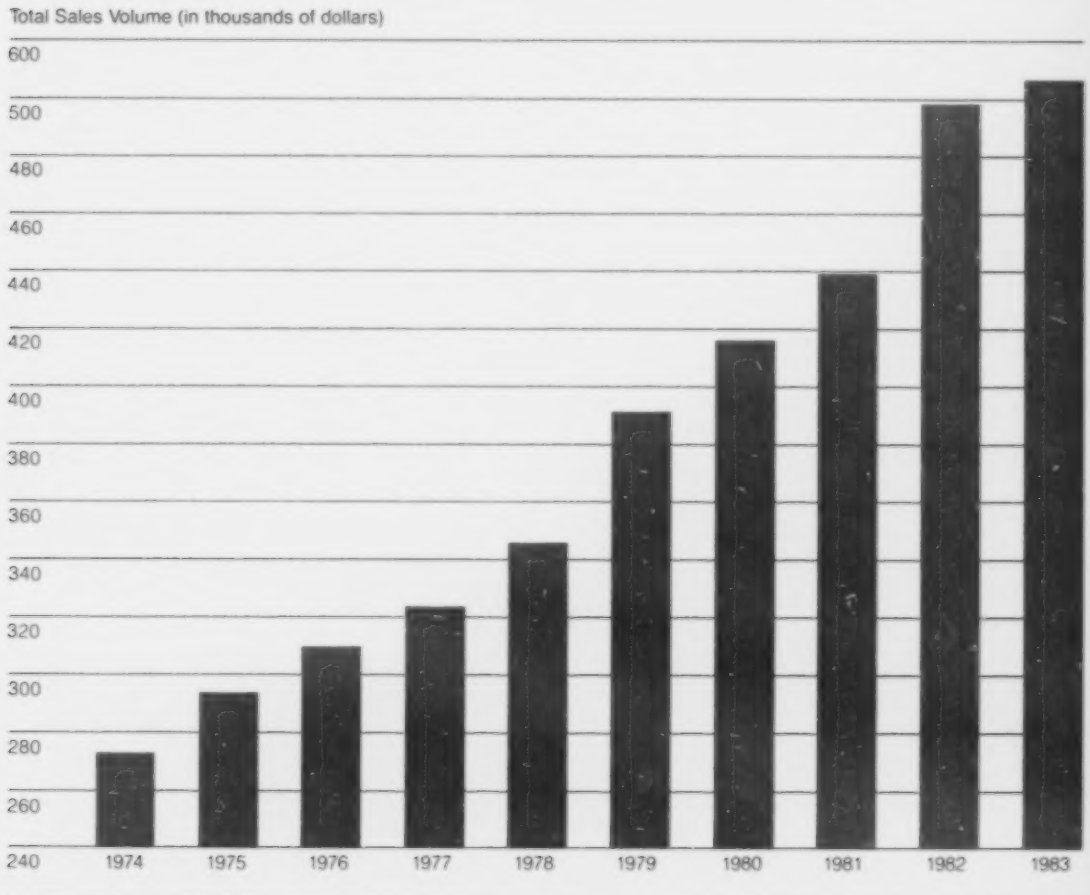
Expressed in Percentage of Sales

Year	Sales	Cost of Goods Sold	Gross Margin	Proprietor's Salary	Employees' Wages	Rent	Other Expenses	Total Expenses	Net Profit	Turnover (Times)
1974	100.0	64.2	35.8	8.2	11.5	2.5	9.9	32.1	3.7	3.9
1975	100.0	64.5	35.5	7.7	11.7	2.5	9.9	31.8	3.7	4.0
1976	100.0	64.9	35.1	7.3	11.8	2.5	9.9	31.5	3.6	4.1
1977	100.0	65.1	34.9	7.0	11.8	2.5	10.2	31.5	3.4	4.0
1978	100.0	65.3	34.7	6.9	11.6	2.4	10.5	31.4	3.3	4.1
1979	100.0	65.7	34.3	6.5	11.9	2.5	10.4	31.3	3.0	4.2
1980	100.0	65.7	34.3	6.2	11.8	2.4	10.6	31.0	3.3	4.2
1981	100.0	65.7	34.3	6.4	11.5	2.5	10.7	31.1	3.2	4.3
1982	100.0	66.4	33.6	6.0	11.3	2.4	11.0	30.7	2.9	4.5
1983	100.0	66.9	33.1	6.0	10.8	2.4	11.0	30.2	2.9	4.6

Ten-Year Trends in Pharmacy Operations—Total sales continued their upward advance during 1983, as Chart 2 indicates. Sales volume increased 6.2% over the 1982 figure; however, this growth was lower than the average annual growth rate of 9.4% over the past decade.

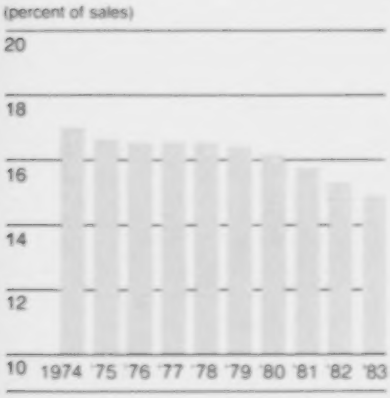
Table 4 presents changes in pharmacy operating statistics expressed in dollars and in percentages of sales. Dollarwise, the cost of goods sold has risen steadily since 1974. However, as a percent of sales, it appears to have stabilized somewhat since 1979. Over the decade, a generally lower level of expenses did not offset the lower

Chart 2 *A decade of sales growth*

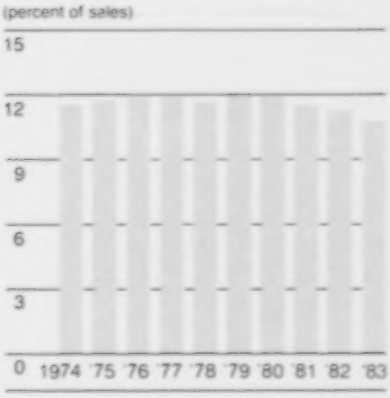


gross margin, with the result that net profit has shown a gradual decline. Even though net profit has tended to fall percentagewise, it has grown consistently in dollars. Rental expense as a percent of sales has remained relatively constant over the ten years but has risen substantially dollarwise. Proprietor's salary, over the decade, has fallen percentagewise and appears to have stabilized during the past two years at 6% of sales. Employees' wages reached their lowest level of the period as a percent of sales while rising to the highest dollar value. During 1983, employees' wages fell below 11% for the first time since 1955. The inventory turnover rate continues to show an improving trend and currently stands at 4.6 times per year—the best rate of the decade.

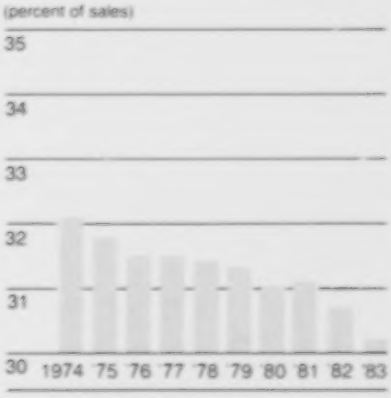
Ten-Year Trends in Pharmacy Operations



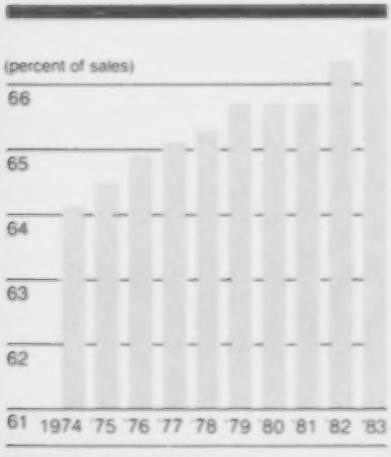
Inventory at Cost



Employees' Wages



Total Expenses



Cost of Goods Sold

Other Expenses

Net Profit

Prescription Department Analysis

The prescription department has grown steadily in importance to the average independent community pharmacy over the past 20 years. The professional area's contribution has increased from 39% of total sales in 1964 to 58.5% in 1983. This suggests that the economic future of the average community pharmacy appears to be closely linked with a strong and dynamic prescription department.

Tables 6 and 7 depict operating data according to daily prescription volume and prescription income as a percent of total sales. Chart 3 illustrates operating statistics selected from these tables. As the number of prescriptions dispensed daily increases, total sales volume also rises. On the other hand, growth in prescription sales as a percent of total sales is generally accompanied by a decline in total sales. As expected, increased prescription volume requires employing additional professionals to handle the larger prescription activity, which, in turn, generates more wage expense and, therefore, higher total expenses. Along with rising prescription activity, there is a general upward trend in net profit.

Inventory investment tends to decline as a percent of sales when the ratio of prescription income to total sales increases. The result is a greater net profit per dollar of inventory in the prescription-oriented pharmacies. Small floor area and limited merchandising space are characteristic of such operations. This seems to explain the lower inventory level, although improved inventory control systems may be an important factor in pharmacies of this type.

Since most state laws require that a registered pharmacist be present whenever a store is open, even though prescription volume may not warrant it, the ratio of prescriptions per employed pharmacist hour can be low, particularly in merchandise-oriented pharmacies that dispense few prescriptions. With rising sales volume and daily prescription activity, the proprietor's time may increasingly become devoted to nonprescription tasks, which results in a need for additional prescription department staff. It appears that pharmacists' prescription output increases as volume grows. Assuming that 75% of the proprietor's time was devoted to the prescription department in the average pharmacy, it can be calculated that, on the average, 7.4 prescriptions per pharmacist hour were dispensed. This figure was up slightly from the 7.1 prescriptions per pharmacist hour reported last year. In pharmacies with the highest daily prescription activity, output is over 13 prescriptions per pharmacist hour and will be higher if the pharmacist-owner's dispensing time is less than 75%. Productivity of this magnitude is probably associated with the use of pharmacy technicians and/or automated equipment.

The break-even point for the 1,547 pharmacies submitting data to the LILLY DIGEST was reached at 10.1 months, when 84.2% of total sales had been recorded. Table 5 lists break-even statistics for the past decade. The 1983 figure shows the same time period as reported for 1982. At the break-even point, all fixed costs of operation for the year are covered as well as the variable costs up to that time. All pharmacy costs are considered fixed except employees' wages, advertising, bad debts, and miscellaneous expenses. Beyond the break-even point, sales are reduced only by the variable costs incurred thereafter. The remainder is net profit.

Table 5 *Average community pharmacy break-even data—1974-1983*

1974	9.8 months — 82.0% of total sales
1975	9.7 months — 81.2% of total sales
1976	9.8 months — 81.8% of total sales
1977	9.9 months — 82.2% of total sales
1978	9.9 months — 82.7% of total sales
1979	10.1 months — 84.2% of total sales
1980	9.9 months — 82.2% of total sales
1981	9.9 months — 82.5% of total sales
1982	10.1 months — 84.2% of total sales
1983	10.1 months — 84.2% of total sales

Chart 3 *Selected operating statistics according to prescription income as a percent of sales*

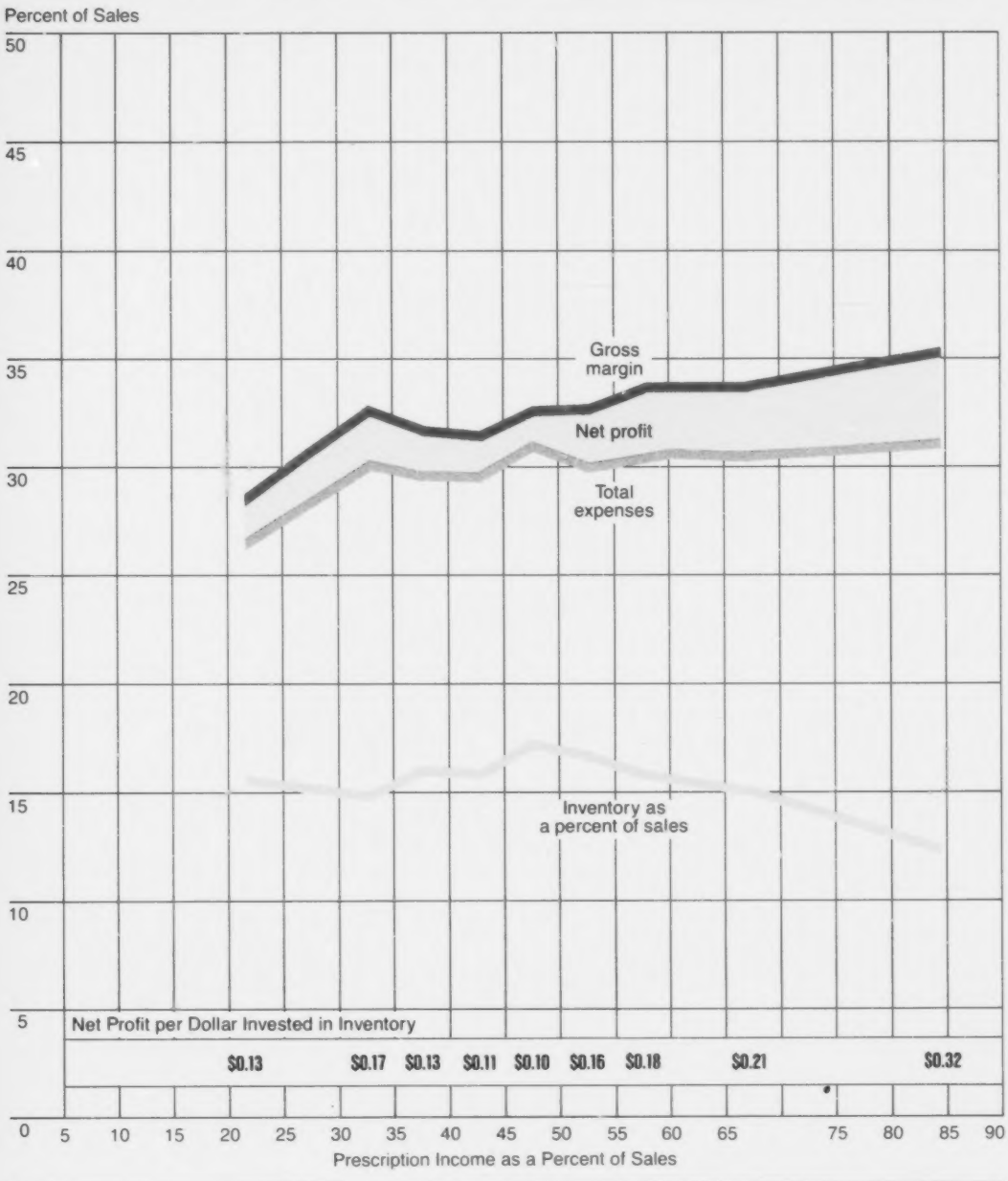


Table 6 *Summary by number of prescriptions dispensed daily in 1983*

Averages per Pharmacy	Under 25 Prescriptions Daily (82 Pharmacies)	25 to 35 Prescriptions Daily (125 Pharmacies)	35 to 50 Prescriptions Daily (245 Pharmacies)	50 to 60 Prescriptions Daily (203 Pharmacies)
Sales				
Prescription	$ 85,284— 50.2%	$127,819— 52.3%	$175,081— 56.1%	$224,497— 55.0%
Other	84,551— 49.8%	116,611— 47.7%	137,046— 43.9%	183,336— 45.0%
Total	$169,835—100.0%	$244,430—100.0%	$312,127—100.0%	$407,833—100.0%
Cost of goods sold	109,997— 64.8%	161,634— 66.1%	206,094— 66.0%	270,288— 66.3%
Gross margin	$ 59,838— 35.2%	$ 82,796— 33.9%	$106,033— 34.0%	$137,545— 33.7%
Expenses				
Proprietor's or manager's salary	$ 20,189— 11.9%	$ 22,669— 9.3%	$ 25,173— 8.1%	$ 28,297— 6.9%
Employees' wages	11,691— 6.9%	21,143— 8.6%	29,292— 9.4%	42,770— 10.5%
Rent	6,063— 3.6%	7,156— 2.9%	8,713— 2.8%	10,630— 2.6%
Heat, light, and power	2,115— 1.2%	3,046— 1.3%	3,313— 1.1%	3,868— 0.9%
Accounting, legal, and other professional fees	873— 0.5%	1,360— 0.6%	1,503— 0.5%	2,022— 0.5%
Taxes (except on buildings, income, and profit) and licenses	2,503— 1.5%	3,586— 1.5%	4,705— 1.5%	6,136— 1.5%
Insurance (except on buildings)	1,654— 1.0%	2,807— 1.2%	3,264— 1.0%	4,379— 1.1%
Interest paid	1,997— 1.2%	2,561— 1.0%	3,365— 1.1%	3,407— 0.8%
Repairs	841— 0.5%	1,003— 0.4%	1,221— 0.4%	1,582— 0.4%
Delivery	1,040— 0.6%	1,385— 0.6%	1,421— 0.5%	1,891— 0.5%
Advertising	1,648— 1.0%	2,809— 1.1%	3,772— 1.2%	4,827— 1.2%
Depreciation (except on buildings)	2,512— 1.5%	2,788— 1.1%	3,454— 1.1%	4,313— 1.0%
Bad debts charged off	178— 0.1%	264— 0.1%	449— 0.1%	701— 0.2%
Telephone	942— 0.5%	1,231— 0.5%	1,379— 0.4%	1,535— 0.4%
Miscellaneous	4,205— 2.4%	5,946— 2.5%	8,485— 2.7%	10,916— 2.6%
	12.0%	11.9%	11.6%	11.1%
Total expenses	$ 58,451— 34.4%	$ 79,754— 32.7%	$ 99,509— 31.9%	$127,274— 31.1%
Net profit (before taxes)	$ 1,387— 0.8%	$ 3,042— 1.2%	$ 6,524— 2.1%	$ 10,271— 2.6%
Add proprietor's withdrawals	20,189— 11.9%	22,669— 9.3%	25,173— 8.1%	28,297— 6.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 21,576— 12.7%	$ 25,711— 10.5%	$ 31,697— 10.2%	$ 38,568— 9.5%
Value of inventory at cost and as a percent of sales				
Prescription	$ 14,434— 16.9%	$ 18,831— 14.7%	$ 22,661— 12.9%	$ 27,965— 12.5%
Other	20,205— 23.9%	32,084— 27.5%	33,433— 24.4%	41,319— 22.5%
Total	$ 34,639— 20.4%	$ 50,915— 20.8%	$ 56,094— 18.0%	$ 69,284— 17.0%
Annual rate of turnover of inventory	3.3 times	3.3 times	3.8 times	4.0 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	258 $333.62	290 $436.84	329 $533.47	356 $630.35
Other	1,183 70.15	1,584 73.08	1,708 81.47	1,971 95.77
Total	1,441 122.32	1,874 133.60	2,037 161.81	2,327 185.32
Sales per dollar invested in inventory				
Prescription	$5.91	$6.79	$7.73	$8.03
Other	4.18	3.63	4.10	4.44
Net profit per dollar invested in inventory	$0.040	$0.060	$0.116	$0.148
Number of prescriptions dispensed				
New	3,615— 50.3%	5,229— 48.0%	7,430— 48.2%	9,657— 49.2%
Renewed	3,570— 49.7%	5,665— 52.0%	7,991— 51.8%	9,960— 50.8%
Total	7,185—100.0%	10,894—100.0%	15,421—100.0%	19,617—100.0%
Prescription charge	$11.87	$11.73	$11.35	$11.44
Number of hours per week				
Pharmacy was open	51 hours	57 hours	58 hours	60 hours
Worked by proprietor	41 hours	49 hours	48 hours	47 hours
Worked by employed pharmacist(s)	14 hours	16 hours	21 hours	33 hours

*Based on averages of pharmacies that reported all data

60 to 75 Prescriptions Daily (239 Pharmacies)	75 to 100 Prescriptions Daily (264 Pharmacies)	100 to 125 Prescriptions Daily (182 Pharmacies)	125 to 150 Prescriptions Daily (90 Pharmacies)	150 to 200 Prescriptions Daily (68 Pharmacies)	Over 200 Prescriptions Daily (49 Pharmacies)
$266,738— 57.6%	$339,544— 60.9%	$436,651— 57.5%	$524,120— 59.2%	$ 657,456— 60.1%	$ 865,180— 66.0%
196,139— 42.4%	218,236— 39.1%	322,736— 42.5%	360,951— 40.8%	436,886— 39.9%	446,035— 34.0%
$462,877—100.0%	$557,780—100.0%	$759,387—100.0%	$885,071—100.0%	$1,094,342—100.0%	$1,311,215—100.0%
308,701— 66.7%	370,016— 66.3%	508,444— 67.0%	596,861— 67.4%	743,947— 68.0%	902,850— 68.9%
$154,176— 33.3%	$187,764— 33.7%	$250,943— 33.0%	$288,210— 32.6%	$ 350,395— 32.0%	$ 408,365— 31.1%
$ 30,572— 6.6%	$ 35,128— 6.3%	$ 37,787— 5.0%	$ 42,481— 4.8%	$ 45,194— 4.1%	$ 49,016— 3.7%
47,065— 10.2%	60,873— 10.9%	86,683— 11.4%	106,721— 12.1%	128,548— 11.7%	158,724— 12.1%
11,691— 2.5%	12,930— 2.3%	17,356— 2.3%	19,285— 2.2%	20,698— 1.9%	23,007— 1.8%
4,546— 1.0%	4,622— 0.8%	6,461— 0.9%	6,371— 0.7%	7,487— 0.7%	8,711— 0.7%
2,178— 0.5%	2,293— 0.4%	3,534— 0.5%	3,772— 0.4%	4,466— 0.4%	5,344— 0.4%
6,693— 1.4%	9,017— 1.6%	11,629— 1.5%	13,218— 1.5%	16,262— 1.5%	21,376— 1.6%
4,918— 1.1%	5,824— 1.1%	8,014— 1.1%	10,016— 1.1%	10,501— 1.0%	12,538— 1.0%
4,463— 1.0%	3,846— 0.7%	5,428— 0.7%	4,508— 0.5%	5,543— 0.5%	9,987— 0.7%
1,752— 0.4%	2,002— 0.4%	3,054— 0.4%	3,180— 0.4%	3,959— 0.4%	3,788— 0.3%
1,881— 0.4%	2,377— 0.4%	3,257— 0.4%	3,419— 0.4%	3,986— 0.4%	5,308— 0.4%
5,289— 1.1%	5,485— 1.0%	8,447— 1.1%	9,082— 1.0%	11,370— 1.0%	10,676— 0.8%
5,249— 1.1%	5,563— 1.0%	8,075— 1.1%	8,809— 1.0%	11,492— 1.1%	14,652— 1.1%
617— 0.1%	812— 0.2%	1,090— 0.1%	1,514— 0.2%	1,278— 0.1%	1,516— 0.1%
1,881— 0.4%	2,062— 0.4%	2,619— 0.3%	2,951— 0.3%	3,227— 0.3%	3,610— 0.3%
11,954— 2.6%	15,976— 2.8%	23,457— 3.1%	27,533— 3.1%	33,749— 3.0%	38,569— 2.9%
11.1%	10.6%	11.2%	10.6%	10.4%	10.3%
$140,749— 30.4%	$168,810— 30.3%	$226,891— 29.9%	$262,860— 29.7%	$ 307,760— 28.1%	$ 366,922— 27.9%
$ 13,427— 2.9%	$ 18,954— 3.4%	$ 24,052— 3.1%	$ 25,350— 2.9%	$ 42,635— 3.9%	$ 41,443— 3.2%
30,572— 6.6%	35,128— 6.3%	37,787— 5.0%	42,481— 4.8%	45,194— 4.1%	49,016— 3.7%
$ 43,999— 9.5%	$ 54,082— 9.7%	$ 61,839— 8.1%	$ 67,831— 7.7%	$ 87,829— 8.0%	$ 90,459— 6.9%
$ 30,770— 11.5%	$ 35,447— 10.4%	$ 43,361— 9.9%	$ 51,042— 9.7%	$ 54,697— 8.3%	$ 72,910— 8.4%
43,299— 22.1%	45,423— 20.8%	62,336— 19.3%	66,228— 18.3%	79,688— 18.2%	72,729— 16.3%
$ 74,069— 16.0%	$ 80,870— 14.5%	$105,697— 13.9%	$117,270— 13.2%	$ 134,385— 12.3%	$ 145,639— 11.1%
4.3 times	4.7 times	5.0 times	5.2 times	5.7 times	6.3 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
388 $690.34	405 $839.92	464 $942.59	517 $1,013.59	471 $1,396.86	651 $1,333.67
2,120 91.37	2,164 102.70	2,575 125.20	2,680 138.59	2,875 145.18	2,979 131.54
2,508 195.14	2,569 232.99	3,039 269.09	3,197 296.63	3,346 383.49	3,630 376.60
$8.67	$9.58	$10.07	$10.27	$12.02	$11.87
4.53	4.80	5.18	5.45	5.48	6.13
$0.181	$0.234	$0.228	$0.216	$0.317	$0.285
11,665— 48.3%	15,151— 48.4%	19,828— 49.9%	23,264— 47.6%	31,808— 51.3%	42,856— 48.3%
12,508— 51.7%	16,176— 51.6%	19,876— 50.1%	25,564— 52.4%	30,149— 48.7%	45,890— 51.7%
24,173—100.0%	31,327—100.0%	39,704—100.0%	48,328—100.0%	61,957—100.0%	88,746—100.0%
$11.03	$10.84	$11.00	$10.73	$10.61	$9.75
62 hours	63 hours	65 hours	68 hours	71 hours	71 hours
48 hours	46 hours	46 hours	47 hours	49 hours	49 hours
32 hours	42 hours	52 hours	68 hours	77 hours	90 hours

Table 7 *Summary of prescription income in 1983*

Averages per Pharmacy	Prescription Income under 30% of Sales (65 Pharmacies)	Prescription Income 30% to 35% of Sales (38 Pharmacies)	Prescription Income 35% to 40% of Sales (74 Pharmacies)	Prescription Income 40% to 45% of Sales (91 Pharmacies)
Sales				
Prescription	$ 232,516— 21.7%	$269,684— 32.6%	$297,375— 37.4%	$286,473— 42.9%
Other	839,742— 78.3%	556,567— 67.4%	497,297— 62.6%	381,865— 57.1%
Total	$1,072,258—100.0%	$826,251—100.0%	$794,672—100.0%	$668,338—100.0%
Cost of goods sold	765,115— 71.4%	556,713— 67.4%	541,697— 68.2%	458,687— 68.6%
Gross margin	$ 307,143— 28.6%	$269,538— 32.6%	$252,975— 31.8%	$209,651— 31.4%
Expenses				
Proprietor's or manager's salary	$ 40,507— 3.7%	$ 37,145— 4.5%	$ 37,001— 4.7%	$ 31,685— 4.7%
Employees' wages	112,934— 10.5%	98,397— 11.9%	94,793— 11.9%	75,912— 11.4%
Rent	29,544— 2.8%	20,419— 2.5%	17,886— 2.3%	16,999— 2.5%
Heat, light, and power	9,273— 0.9%	8,468— 1.0%	7,733— 1.0%	6,602— 1.0%
Accounting, legal, and other professional fees	3,870— 0.4%	2,750— 0.3%	3,002— 0.4%	2,964— 0.5%
Taxes (except on buildings, income, and profit) and licenses	13,102— 1.2%	13,474— 1.6%	12,269— 1.5%	9,908— 1.5%
Insurance (except on buildings)	8,512— 0.8%	9,407— 1.2%	8,453— 1.0%	6,315— 0.9%
Interest paid	6,756— 0.6%	5,198— 0.6%	5,829— 0.7%	6,332— 0.9%
Repairs	4,303— 0.4%	3,284— 0.4%	3,003— 0.4%	2,702— 0.4%
Delivery	2,503— 0.2%	2,667— 0.3%	2,570— 0.3%	2,296— 0.3%
Advertising	14,205— 1.3%	8,103— 1.0%	9,519— 1.2%	7,788— 1.2%
Depreciation (except on buildings)	10,534— 1.0%	7,616— 0.9%	8,691— 1.1%	6,374— 1.0%
Bad debts charged off	797— 0.1%	767— 0.1%	652— 0.1%	753— 0.1%
Telephone	2,799— 0.3%	2,439— 0.3%	2,346— 0.3%	2,122— 0.3%
Miscellaneous	25,306— 2.3%	27,615— 3.4%	21,582— 2.7%	18,370— 2.8%
	9.5%	11.1%	10.7%	10.9%
Total expenses	$ 284,945— 26.5%	$247,749— 30.0%	$235,329— 29.6%	$197,122— 29.5%
Net profit (before taxes)	$ 22,198— 2.1%	$ 21,789— 2.6%	$ 17,646— 2.2%	$ 12,529— 1.9%
Add proprietor's withdrawals	40,507— 3.7%	37,145— 4.5%	37,001— 4.7%	31,685— 4.7%
Total income of self-employed proprietor (before taxes on income and profits)	$ 62,705— 5.8%	$ 58,934— 7.1%	$ 54,647— 6.9%	$ 44,214— 6.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 29,507— 12.7%	$ 32,283— 12.0%	$ 35,161— 11.8%	$ 32,674— 11.4%
Other	136,244— 16.2%	90,583— 16.3%	92,906— 18.7%	72,752— 19.1%
Total	$ 165,751— 15.5%	$122,866— 14.9%	$128,067— 16.1%	$105,426— 15.8%
Annual rate of turnover of inventory	4.6 times	4.6 times	4.4 times	4.5 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	360 $601.21	363 $742.99	398 $732.69	365 $785.21
Other	4,315 179.02	3,533 157.52	3,459 140.89	3,152 121.53
Total	4,675 212.51	3,896 212.06	3,857 201.98	3,517 190.48
Sales per dollar invested in inventory				
Prescription	$7.88	$8.35	$8.46	$8.77
Other	6.16	6.14	5.35	5.25
Net profit per dollar invested in inventory	$0.134	$0.177	$0.138	$0.119
Number of prescriptions dispensed				
New	11,719— 51.7%	13,325— 53.0%	14,028— 51.0%	12,950— 50.0%
Renewed	10,962— 48.3%	11,805— 47.0%	13,484— 49.0%	12,945— 50.0%
Total	22,681—100.0%	25,130—100.0%	27,512—100.0%	25,895—100.0%
Prescription charge	$10.25	$10.73	$10.81	$11.06
Number of hours per week				
Pharmacy was open	72 hours	72 hours	71 hours	69 hours
Worked by proprietor	48 hours	46 hours	50 hours	49 hours
Worked by employed pharmacist(s)	67 hours	60 hours	59 hours	49 hours

*Based on averages of pharmacies that reported all data

Prescription Income 45% to 50% of Sales (121 Pharmacies)	Prescription Income 50% to 55% of Sales (120 Pharmacies)	Prescription Income 55% to 60% of Sales (147 Pharmacies)	Prescription Income 60% to 75% of Sales (421 Pharmacies)	Prescription Income over 75% of Sales (470 Pharmacies)
$250,713— 47.5%	$283,523— 52.5%	$317,357— 57.8%	$308,294— 67.0%	$349,642— 84.5%
276,804— 52.5%	256,305— 47.5%	231,548— 42.2%	151,725— 33.0%	64,119— 15.5%
$527,517—100.0%	$539,828—100.0%	$548,905—100.0%	$460,019—100.0%	$413,761—100.0%
354,348— 67.2%	362,929— 67.2%	363,743— 66.3%	305,089— 66.3%	268,251— 64.8%
$173,169— 32.8%	$176,899— 32.8%	$185,162— 33.7%	$154,930— 33.7%	$145,510— 35.2%
$ 31,119— 5.9%	$ 30,260— 5.6%	$ 31,514— 5.7%	$ 30,410— 6.6%	$ 31,189— 7.5%
59,688— 11.3%	57,879— 10.7%	64,466— 11.7%	49,186— 10.7%	41,119— 9.9%
13,144— 2.5%	11,929— 2.2%	11,989— 2.2%	10,124— 2.2%	10,017— 2.4%
5,492— 1.0%	5,417— 1.0%	5,115— 0.9%	4,127— 0.9%	2,642— 0.6%
2,530— 0.5%	2,155— 0.4%	2,479— 0.5%	2,114— 0.5%	2,185— 0.5%
8,722— 1.7%	8,056— 1.5%	9,018— 1.6%	7,171— 1.6%	6,280— 1.5%
6,035— 1.1%	5,376— 1.0%	6,135— 1.1%	5,145— 1.1%	4,303— 1.1%
5,299— 1.0%	5,096— 0.9%	4,124— 0.8%	3,160— 0.7%	3,209— 0.8%
2,469— 0.5%	2,140— 0.4%	1,903— 0.4%	1,708— 0.4%	1,343— 0.3%
1,719— 0.3%	1,873— 0.3%	2,364— 0.4%	2,193— 0.5%	2,409— 0.6%
6,123— 1.2%	7,415— 1.4%	6,823— 1.2%	4,358— 0.9%	3,491— 0.9%
5,905— 1.1%	5,952— 1.1%	5,497— 1.0%	5,137— 1.1%	4,605— 1.1%
736— 0.1%	820— 0.2%	726— 0.1%	675— 0.1%	822— 0.2%
1,842— 0.4%	1,813— 0.4%	2,062— 0.4%	1,791— 0.4%	1,860— 0.5%
12,718— 2.4%	15,871— 2.9%	15,104— 2.8%	13,129— 2.8%	13,270— 3.2%
11.3%	11.5%	11.2%	11.0%	11.3%
$163,541— 31.0%	$162,052— 30.0%	$169,319— 30.8%	$140,428— 30.5%	$128,743— 31.1%
$ 9,628— 1.8%	$ 14,847— 2.8%	$ 15,843— 2.9%	$ 14,502— 3.2%	$ 16,767— 4.1%
31,119— 5.9%	30,260— 5.6%	31,514— 5.7%	30,410— 6.6%	31,189— 7.5%
$ 40,747— 7.7%	$ 45,107— 8.4%	$ 47,357— 8.6%	$ 44,912— 9.8%	$ 47,956— 11.6%
$ 29,550— 11.8%	$ 30,899— 10.9%	$ 33,541— 10.6%	$ 32,839— 10.7%	$ 35,099— 10.0%
61,751— 22.3%	59,029— 23.0%	53,824— 23.2%	36,071— 23.8%	15,804— 24.6%
$ 91,301— 17.3%	$ 89,928— 16.7%	$ 87,365— 15.9%	$ 68,910— 15.0%	$ 50,903— 12.3%
4.0 times	4.2 times	4.3 times	4.6 times	5.5 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
377 $667.29	374 $767.29	361 $872.73	391 $784.63	416 $834.83
2,500 110.87	2,561 101.29	2,453 93.68	1,931 77.65	1,031 62.06
2,877 183.63	2,935 186.04	2,814 193.66	2,322 196.84	1,447 284.39
$8.48	$9.18	$9.46	$9.39	$9.96
4.48	4.34	4.30	4.21	4.06
$0.105	$0.165	$0.181	$0.210	$0.329
11,616— 49.4%	13,063— 49.6%	13,728— 47.6%	13,757— 48.0%	15,354— 48.8%
11,885— 50.6%	13,248— 50.4%	15,142— 52.4%	14,932— 52.0%	16,128— 51.2%
23,501—100.0%	26,311—100.0%	28,870—100.0%	28,689—100.0%	31,482—100.0%
$10.67	$10.78	$10.99	$10.75	$11.11
64 hours	64 hours	65 hours	61 hours	56 hours
48 hours	48 hours	47 hours	48 hours	45 hours
35 hours	41 hours	43 hours	35 hours	30 hours

Table 8 *Prescription trends in LILLY DIGEST pharmacies*

Year	Averages per Pharmacy: Prescription Sales	Percentage of Prescription Sales to Total Sales	Number of Prescriptions	Percent Renewals	Prescription Charge	Prescription Inventory	Prescription Sales per Dollar of Prescription Inventory
1964	$ 63,157	39.0%	18,532	53.7%	$ 3.41	$ 9,495	$6.65
1965	68,587	40.9%	19,708	53.7%	3.48	9,928	6.91
1966	71,586	41.0%	19,962	53.6%	3.59	10,235	6.99
1967	78,789	41.8%	21,544	54.5%	3.66	10,881	7.24
1968	85,953	43.2%	22,848	54.8%	3.76	11,478	7.49
1969	93,299	43.7%	23,951	54.5%	3.90	12,220	7.63
1970	98,445	44.5%	24,243	54.8%	4.06	12,592	7.82
1971	105,875	44.7%	25,122	54.9%	4.21	13,268	7.98
1972	112,777	46.6%	25,743	54.1%	4.38	13,969	8.07
1973	122,615	47.3%	27,019	54.5%	4.54	14,827	8.27
1974	130,384	47.9%	27,089	53.7%	4.81	15,925	8.19
1975	142,915	48.6%	27,572	53.0%	5.18	17,342	8.24
1976	153,735	49.6%	27,163	52.7%	5.66	18,554	8.29
1977	162,631	50.4%	26,649	51.5%	6.10	19,471	8.35
1978	176,705	51.2%	26,913	51.6%	6.57	21,133	8.36
1979	195,159	49.8%	27,187	50.3%	7.18	22,941	8.51
1980	212,949	51.2%	27,126	50.4%	7.85	24,639	8.64
1981	239,561	54.6%	27,225	51.4%	8.80	26,854	8.92
1982	272,527	54.7%	27,501	51.2%	9.91	29,642	9.19
1983	309,354	58.5%	28,404	51.1%	10.89	33,132	9.34

Twenty Years of Prescription Department Data—Over the past two decades, prescription sales have increased steadily. A review of Table 8 indicates that new highs were attained in many categories; most notable was the substantial increase in the percentage of prescription sales to total sales. This statistic showed the largest two-year increase in DIGEST history and emphasizes the importance of the prescription department to the overall operation. The number of prescriptions dispensed during 1983 reach its highest level in 20 years.

Prescription inventories increased dollarwise since 1964; however, prescription sales per dollar of prescription inventory have also risen. The general upward trend in productivity reflects a faster growth in prescription sales in relation to prescription inventory. The $9.34 in sales for each dollar invested in prescription inventory can be contrasted with a return of $4.79 on nonprescription stock, thus underscoring the major revenue-generating role of the professional area.

Renewed prescriptions again took a lower share of all prescriptions. This downtrend may be a result of expanding government and private prescription programs, which often require new prescriptions on a frequent basis and/or stricter laws governing renewed prescriptions.

THE HEART OF THE LILLY DIGEST

This section contains 29 categories of operating averages arranged according to both annual sales volume and daily prescription activity (Tables 9 through 14).
A generally accepted accounting format is used to display the operating data so that comparisons can be made with any pharmacy's figures.
Page 55 contains a work sheet that may be useful for this purpose.

THE HEART OF THE LILLY DIGEST

	Total Sales	
	Under $150,000	
Averages per Pharmacy	**(60 Pharmacies)**	
Sales		
Prescription	$ 91,743	76.7%
Other	27,888	23.3%
Total	$119,631	100.0%
Cost of goods sold	76,602	64.0%
Gross margin	$ 43,029	36.0%
Expenses		
Proprietor's or manager's salary	$ 18,020	15.1%
Employees' wages	6,082	5.1%
Rent	5,234	4.4%
Heat, light, and power	1,248	1.0%
Accounting, legal, and other professional fees	517	0.4%
Taxes (except on buildings, income, and profit) and licenses	1,766	1.5%
Insurance (except on buildings)	1,107	0.9%
Interest paid	1,109	0.9%
Repairs	519	0.4%
Delivery	789	0.7%
Advertising	1,044	0.9%
Depreciation (except on buildings)	1,458	1.2%
Bad debts charged off	219	0.2%
Telephone	816	0.7%
Miscellaneous	3,326	2.8%
		11.6%
Total expenses	$ 43,254	36.2%
Net profit (before taxes)	($ 225	0.2%)
Add proprietor's withdrawals	18,020	15.1%
Total income of self-employed proprietor (before taxes on income and profits)	$ 17,795	14.9%
Value of inventory at cost and as a percent of sales		
Prescription	$ 14,738	16.1%
Other	6,898	24.7%
Total	$ 21,636	18.1%
Annual rate of turnover of inventory	3.7 times	
Size of area and sales per square foot*	sq. ft.	
Prescription	293	$315.35
Other	733	38.69
Total	1,026	117.73
Sales per dollar invested in inventory		
Prescription	$6.22	
Other	4.04	
Net profit per dollar invested in inventory	($0.010)	
Number of prescriptions dispensed		
New	4,361	50.6%
Renewed	4,260	49.4%
Total	8,621	100.0%
Prescription charge	$10.64	
Number of hours per week		
Pharmacy was open	49 hours	
Worked by proprietor	41 hours	
Worked by employed pharmacist(s)	8 hours	

*Based on averages of pharmacies that reported all data

Find and Compare Sales under $200,000

Total Sales
$150,000-$200,000
(99 Pharmacies)
$127,638— 71.7%
50,297— 28.3%
$177,935—100.0%
114,011— 64.1%
$ 63,924— 35.9%
$ 21,365— 12.0%
12,336— 6.9%
6,025— 3.4%
1,991— 1.1%
1,057— 0.6%
2,461— 1.4%
1,782— 1.0%
2,094— 1.2%
635— 0.4%
947— 0.5%
2,033— 1.1%
2,108— 1.2%
153— 0.1%
1,042— 0.6%
4,802— 2.7%
11.9%
$ 60,831— 34.2%
$ 3,093— 1.7%
21,365— 12.0%
$ 24,458— 13.7%
$ 17,992— 14.1%
15,871— 31.6%
$ 33,863— 19.0%
3.4 times
sq. ft.
321 $394.71
960 53.20
1,281 138.78
$7.09
3.17
$0.090
5,962— 49.3%
6,139— 50.7%
12,101—100.0%
$10.55
52 hours
44 hours
10 hours

Averages per Pharmacy	Total Sales $200,000-$250,000 Under 50 Prescriptions Daily (89 Pharmacies)	
Sales		
Prescription	$147,705	65.6%
Other	77,561	34.4%
Total	$225,266	100.0%
Cost of goods sold	146,651	65.1%
Gross margin	$ 78,615	34.9%
Expenses		
Proprietor's or manager's salary	$ 23,009	10.2%
Employees' wages	17,788	7.9%
Rent	6,335	2.8%
Heat, light, and power	2,562	1.1%
Accounting, legal, and other professional fees	1,150	0.5%
Taxes (except on buildings, income, and profit) and licenses	3,473	1.5%
Insurance (except on buildings)	2,433	1.1%
Interest paid	2,780	1.2%
Repairs	1,019	0.5%
Delivery	1,335	0.6%
Advertising	2,203	1.0%
Depreciation (except on buildings)	3,092	1.4%
Bad debts charged off	217	0.1%
Telephone	1,210	0.6%
Miscellaneous	5,478	2.4%
		12.0%
Total expenses	$ 74,084	32.9%
Net profit (before taxes)	$ 4,531	2.0%
Add proprietor's withdrawals	23,009	10.2%
Total income of self-employed proprietor (before taxes on income and profits)	$ 27,540	12.2%
Value of inventory at cost and as a percent of sales		
Prescription	$ 21,452	14.5%
Other	20,485	26.4%
Total	$ 41,937	18.6%
Annual rate of turnover of inventory	3.6 times	
Size of area and sales per square foot*	sq. ft.	
Prescription	292	$502.84
Other	1,242	63.27
Total	1,534	146.93
Sales per dollar invested in inventory		
Prescription	$6.89	
Other	3.79	
Net profit per dollar invested in inventory	$0.110	
Number of prescriptions dispensed		
New	6,048	46.1%
Renewed	7,076	53.9%
Total	13,124	100.0%
Prescription charge	$11.25	
Number of hours per week		
Pharmacy was open	55 hours	
Worked by proprietor	47 hours	
Worked by employed pharmacist(s)	14 hours	

*Based on averages of pharmacies that reported all data

Find and Compare Sales $200,000-$300,000

	Total Sales $250,000-$300,000	
Over 50 Prescriptions Daily (26 Pharmacies)	Under 50 Prescriptions Daily (74 Pharmacies)	Over 50 Prescriptions Daily (66 Pharmacies)
$191,506— 82.7%	$159,861— 58.2%	$228,311— 82.7%
39,929— 17.3%	114,596— 41.8%	47,888— 17.3%
$231,435—100.0%	$274,457—100.0%	$276,199—100.0%
149,820— 64.7%	181,568— 66.2%	178,581— 64.7%
$ 81,615— 35.3%	$ 92,889— 33.8%	$ 97,618— 35.3%
$ 23,022— 9.9%	$ 24,413— 8.9%	$ 26,224— 9.5%
17,711— 7.7%	24,306— 8.9%	23,847— 8.6%
7,415— 3.2%	7,069— 2.6%	7,512— 2.7%
1,911— 0.8%	3,045— 1.1%	2,175— 0.8%
1,269— 0.5%	1,458— 0.5%	1,655— 0.6%
3,653— 1.6%	3,902— 1.4%	3,759— 1.4%
2,909— 1.2%	2,738— 1.0%	2,773— 1.0%
2,563— 1.1%	2,789— 1.0%	2,184— 0.8%
597— 0.3%	1,116— 0.4%	701— 0.2%
1,855— 0.8%	1,387— 0.5%	1,757— 0.6%
1,519— 0.7%	2,669— 1.0%	2,210— 0.8%
2,521— 1.1%	3,229— 1.1%	2,682— 1.0%
292— 0.1%	320— 0.1%	570— 0.2%
1,145— 0.5%	1,291— 0.5%	1,352— 0.5%
7,344— 3.2%	7,370— 2.7%	7,653— 2.8%
11.9%	11.3%	10.7%
$ 75,726— 32.7%	$ 87,102— 31.7%	$ 87,054— 31.5%
$ 5,889— 2.6%	$ 5,787— 2.1%	$ 10,564— 3.8%
23,022— 9.9%	24,413— 8.9%	26,224— 9.5%
$ 28,911— 12.5%	$ 30,200— 11.0%	$ 36,788— 13.3%
$ 24,387— 12.7%	$ 22,428— 14.0%	$ 28,677— 12.6%
8,806— 22.1%	28,884— 25.2%	14,553— 30.4%
$ 33,193— 14.3%	$ 51,312— 18.7%	$ 43,230— 15.7%
4.6 times	3.6 times	4.4 times
sq. ft.	sq. ft.	sq. ft.
368 $520.66	310 $515.80	348 $653.68
803 48.97	1,649 69.72	931 52.16
1,171 197.39	1,959 140.41	1,279 216.07
$7.85	$7.13	$7.96
4.53	3.97	3.29
$0.180	$0.110	$0.240
11,358— 54.4%	6,649— 48.1%	10,929— 50.0%
9,514— 45.6%	7,180— 51.9%	10,948— 50.0%
20,872—100.0%	13,829—100.0%	21,877—100.0%
$9.18	$11.56	$10.44
54 hours	57 hours	55 hours
49 hours	50 hours	46 hours
24 hours	20 hours	16 hours

Averages per Pharmacy	Total Sales $300,000-$350,000					
	Under 50 Prescriptions Daily (52 Pharmacies)			Over 50 Prescriptions Daily (87 Pharmacies)		
Sales						
Prescription	$167,433	51.9%		$241,604	74.0%	
Other	155,305	48.1%		85,036	26.0%	
Total	$322,738	100.0%		$326,640	100.0%	
Cost of goods sold	209,556	64.9%		215,207	65.9%	
Gross margin	$113,182	35.1%		$111,433	34.1%	
Expenses						
Proprietor's or manager's salary	$ 26,790	8.3%		$ 29,059	8.9%	
Employees' wages	30,674	9.5%		26,883	8.2%	
Rent	10,388	3.2%		8,399	2.6%	
Heat, light, and power	3,678	1.1%		2,910	0.9%	
Accounting, legal, and other professional fees	1,951	0.6%		1,961	0.6%	
Taxes (except on buildings, income, and profit) and licenses	5,664	1.8%		4,206	1.3%	
Insurance (except on buildings)	3,844	1.2%		3,087	0.9%	
Interest paid	3,623	1.1%		2,829	0.9%	
Repairs	1,475	0.5%	12.5%	952	0.3%	10.6%
Delivery	1,824	0.6%		1,507	0.5%	
Advertising	3,872	1.2%		2,963	0.9%	
Depreciation (except on buildings)	3,971	1.2%		4,096	1.2%	
Bad debts charged off	304	0.1%		672	0.2%	
Telephone	1,652	0.5%		1,607	0.5%	
Miscellaneous	8,254	2.6%		7,839	2.4%	
Total expenses	$107,964	33.5%		$ 98,970	30.3%	
Net profit (before taxes)	$ 5,218	1.6%		$ 12,463	3.8%	
Add proprietor's withdrawals	26,790	8.3%		29,059	8.9%	
Total income of self-employed proprietor (before taxes on income and profits)	$ 32,008	9.9%		$ 41,522	12.7%	
Value of inventory at cost and as a percent of sales						
Prescription	$ 21,836	13.0%		$ 30,117	12.5%	
Other	41,095	26.5%		21,244	25.0%	
Total	$ 62,931	19.5%		$ 51,361	15.7%	
Annual rate of turnover of inventory	3.4 times			4.3 times		
Size of area and sales per square foot*	sq. ft.			sq. ft.		
Prescription	282	$596.94		374	$646.42	
Other	2,083	73.96		1,292	65.81	
Total	2,365	136.31		1,666	196.03	
Sales per dollar invested in inventory						
Prescription	$7.67			$8.02		
Other	3.78			4.00		
Net profit per dollar invested in inventory	$0.080			$0.240		
Number of prescriptions dispensed						
New	6,491	46.8%		10,858	46.7%	
Renewed	7,381	53.2%		12,404	53.3%	
Total	13,872	100.0%		23,262	100.0%	
Prescription charge	$12.07			$10.39		
Number of hours per week						
Pharmacy was open	61 hours			57 hours		
Worked by proprietor	51 hours			47 hours		
Worked by employed pharmacist(s)	19 hours			20 hours		

*Based on averages of pharmacies that reported all data

TABLE 11

Find and Compare Sales $300,000-$400,000

Total Sales			
$350,000-$400,000			
Under 50 Prescriptions Daily (39 Pharmacies)		50 to 75 Prescriptions Daily (74 Pharmacies)		Over 75 Prescriptions Daily (32 Pharmacies)	
$182,682– 48.8%		$249,517– 66.9%		$304,954– 80.4%	
191,847– 51.2%		123,668– 33.1%		74,483– 19.6%	
$374,529–100.0%		$373,185–100.0%		$379,437–100.0%	
245,508– 65.6%		246,216– 66.0%		250,157– 65.9%	
$129,021– 34.4%		$126,969– 34.0%		$129,280– 34.1%	
$ 25,651– 6.8%		$ 30,401– 8.1%		$ 30,933– 8.2%	
41,040– 11.0%		36,501– 9.8%		31,696– 8.4%	
9,027– 2.4%		7,301– 2.0%		8,681– 2.3%	
4,665– 1.2%		3,639– 1.0%		2,213– 0.6%	
1,870– 0.5%		1,541– 0.4%		1,918– 0.5%	
5,898– 1.6%		5,192– 1.4%		5,522– 1.4%	
4,435– 1.2%		4,300– 1.2%		3,800– 1.0%	
5,396– 1.4%		2,485– 0.7%		3,522– 0.9%	
1,365– 0.4%	11.9%	1,251– 0.3%	10.5%	1,117– 0.3%	10.1%
1,669– 0.4%		2,021– 0.5%		1,893– 0.5%	
4,571– 1.2%		3,916– 1.0%		3,346– 0.9%	
4,283– 1.1%		3,978– 1.0%		2,954– 0.8%	
1,182– 0.3%		578– 0.1%		846– 0.2%	
1,399– 0.4%		1,425– 0.4%		1,847– 0.5%	
8,245– 2.2%		9,240– 2.5%		9,379– 2.5%	
$120,696– 32.1%		$113,769– 30.4%		$109,667– 29.0%	
$ 8,325– 2.3%		$ 13,200– 3.6%		$ 19,613– 5.1%	
25,651– 6.8%		30,401– 8.1%		30,933– 8.2%	
$ 33,976– 9.1%		$ 43,601– 11.7%		$ 50,546– 13.3%	
$ 22,501– 12.3%		$ 28,755– 11.5%		$ 28,096– 9.2%	
48,450– 25.3%		30,395– 24.6%		16,844– 22.6%	
$ 70,951– 18.9%		$ 59,150– 15.9%		$ 44,940– 11.8%	
3.5 times		4.3 times		5.7 times	
sq. ft.		sq. ft.		sq. ft.	
411	$443.43	356	$704.83	426	$709.37
2,183	88.19	1,667	73.34	1,194	64.70
2,594	144.49	2,023	184.44	1,620	234.37
	$8.12		$8.63		$10.85
	3.96		4.07		4.42
	$0.120		$0.220		$0.440
7,131– 47.6%		10,409– 46.3%		15,666– 46.5%	
7,859– 52.4%		12,076– 53.7%		18,004– 53.5%	
14,990–100.0%		22,485–100.0%		33,670–100.0%	
$12.19		$11.10		$9.06	
59 hours		59 hours		56 hours	
48 hours		48 hours		47 hours	
32 hours		24 hours		17 hours	

Averages per Pharmacy	Total Sales $400,000-$450,000 Under 75 Prescriptions Daily (60 Pharmacies)		Over 75 Prescriptions Daily (51 Pharmacies)	
Sales				
Prescription	$252,211	59.7%	$327,580	77.4%
Other	170,162	40.3%	95,811	22.6%
Total	$422,373	100.0%	$423,391	100.0%
Cost of goods sold	279,834	66.3%	271,492	64.1%
Gross margin	$142,539	33.7%	$151,899	35.9%
Expenses				
Proprietor's or manager's salary	$ 27,752	6.6%	$ 30,828	7.3%
Employees' wages	44,363	10.5%	43,003	10.2%
Rent	9,510	2.3%	10,913	2.6%
Heat, light, and power	4,444	1.1%	3,312	0.8%
Accounting, legal, and other professional fees	1,907	0.5%	2,292	0.5%
Taxes (except on buildings, income, and profit) and licenses	6,536	1.5%	7,160	1.7%
Insurance (except on buildings)	4,937	1.2%	4,284	1.0%
Interest paid	4,413	1.0%	3,443	0.8%
Repairs	1,679	0.4%	1,531	0.4%
Delivery	1,633	0.4%	2,153	0.5%
Advertising	5,611	1.3%	3,712	0.9%
Depreciation (except on buildings)	4,646	1.1%	4,417	1.0%
Bad debts charged off	524	0.1%	957	0.2%
Telephone	1,850	0.4%	1,710	0.4%
Miscellaneous	12,302	2.9%	13,207	3.1%
		11.9%		11.3%
Total expenses	$132,107	31.3%	$132,922	31.4%
Net profit (before taxes)	$ 10,432	2.4%	$ 18,977	4.5%
Add proprietor's withdrawals	27,752	6.6%	30,828	7.3%
Total income of self-employed proprietor (before taxes on income and profits)	$ 38,184	9.0%	$ 49,805	11.8%
Value of inventory at cost and as a percent of sales				
Prescription	$ 28,069	11.1%	$ 37,777	11.5%
Other	45,894	27.0%	16,992	17.7%
Total	$ 73,963	17.5%	$ 54,769	12.9%
Annual rate of turnover of inventory	3.9 times		5.2 times	
Size of area and sales per square foot*	sq. ft		sq. ft.	
Prescription	386	$652.44	426	$768.03
Other	2,287	74.65	1,380	69.54
Total	2,673	158.05	1,806	234.28
Sales per dollar invested in inventory				
Prescription	$8.39		$8.67	
Other	3.71		5.64	
Net profit per dollar invested in inventory	$0.140		$0.350	
Number of prescriptions dispensed				
New	10,290	48.4%	15,161	46.5%
Renewed	10,956	51.6%	17,469	53.5%
Total	21,246	100.0%	32,630	100.0%
Prescription charge	$11.87		$10.04	
Number of hours per week				
Pharmacy was open	61 hours		57 hours	
Worked by proprietor	50 hours		46 hours	
Worked by employed pharmacist(s)	28 hours		27 hours	

*Based on averages of pharmacies that reported all data

Total Sales

$450,000-$500,000

Find and Compare Sales $400,000-$500,000

TABLE 12

Under 75 Prescriptions Daily (61 Pharmacies)	Over 75 Prescriptions Daily (53 Pharmacies)
$243,538— 51.4%	$344,576— 72.6%
230,464— 48.6%	129,869— 27.4%
$474,002—100.0%	$474,445—100.0%
315,444— 66.5%	314,394— 66.3%
$158,558— 33.5%	$160,051— 33.7%
$ 31,224— 6.6%	$ 32,441— 6.8%
51,548— 10.9%	48,918— 10.3%
12,137— 2.6%	9,345— 2.0%
5,175— 1.1%	3,624— 0.8%
2,661— 0.6%	2,045— 0.4%
7,927— 1.7%	7,132— 1.5%
5,604— 1.2%	4,586— 1.0%
4,739— 1.0%	4,061— 0.8%
2,308— 0.5%	1,530— 0.3%
2,497— 0.5%	2,199— 0.5%
5,894— 1.2%	5,291— 1.1%
5,542— 1.2%	4,936— 1.0%
514— 0.1%	906— 0.2%
1,704— 0.3%	1,965— 0.4%
12,432— 2.6%	14,596— 3.1%
12.0%	11.1%
$151,906— 32.1%	$143,575— 30.2%
$ 6,652— 1.4%	$ 16,476— 3.5%
31,224— 6.6%	32,441— 6.8%
$ 37,876— 8.0%	$ 48,917— 10.3%
$ 28,698— 11.8%	$ 34,249— 9.9%
52,766— 22.9%	36,353— 28.0%
$ 81,464— 17.2%	$ 70,602— 14.9%
4.0 times	4.5 times
sq. ft.	sq. ft.
385 $632.21	394 $881.27
2,356 97.89	1,637 77.85
2,741 172.93	2,031 233.80
$8.49	$10.06
4.37	3.57
$0.080	$0.230
10,711— 51.9%	15,788— 48.4%
9,931— 48.1%	16,832— 51.6%
20,642—100.0%	32,620—100.0%
$11.80	$10.56
64 hours	60 hours
46 hours	46 hours
42 hours	36 hours

Averages per Pharmacy	Total Sales $500,000-$600,000 Under 75 Prescriptions Daily (54 Pharmacies)		75 to 100 Prescriptions Daily (55 Pharmacies)		Over 100 Prescriptions Daily (58 Pharmacies)	
Sales						
Prescription	$243,667	44.6%	$356,496	65.1%	$448,370	81.1%
Other	302,714	55.4%	191,143	34.9%	104,548	18.9%
Total	$546,381	100.0%	$547,639	100.0%	$552,918	100.0%
Cost of goods sold	365,160	66.8%	359,724	65.7%	363,706	65.8%
Gross margin	$181,221	33.2%	$187,915	34.3%	$189,212	34.2%
Expenses						
Proprietor's or manager's salary	$ 28,891	5.3%	$ 36,610	6.7%	$ 35,915	6.5%
Employees' wages	58,331	10.7%	61,731	11.3%	62,814	11.4%
Rent	14,646	2.7%	13,358	2.4%	10,909	2.0%
Heat, light, and power	5,956	1.1%	4,899	0.9%	3,713	0.7%
Accounting, legal, and other professional fees	2,801	0.5%	2,252	0.4%	2,417	0.4%
Taxes (except on buildings, income, and profit) and licenses	8,047	1.5%	9,864	1.8%	9,679	1.7%
Insurance (except on buildings)	6,248	1.2%	6,464	1.2%	6,210	1.1%
Interest paid	4,875	0.9%	2,643	0.5%	2,579	0.5%
Repairs	2,349	0.4%	2,143	0.4%	1,876	0.3%
Delivery	2,286	0.4%	2,774	0.5%	3,113	0.6%
Advertising	6,339	1.2%	4,965	0.9%	3,936	0.7%
Depreciation (except on buildings)	5,660	1.0%	4,769	0.8%	5,754	1.0%
Bad debts charged off	765	0.1%	975	0.2%	1,235	0.2%
Telephone	2,020	0.4%	2,434	0.4%	2,273	0.4%
Miscellaneous	15,380	2.8%	14,137	2.6%	15,792	2.9%
		11.5%		10.6%		10.5%
Total expenses	$164,594	30.2%	$170,018	31.0%	$168,215	30.4%
Net profit (before taxes)	$ 16,627	3.0%	$ 17,897	3.3%	$ 20,997	3.8%
Add proprietor's withdrawals	28,891	5.3%	36,610	6.7%	35,915	6.5%
Total income of self-employed proprietor (before taxes on income and profits)	$ 45,518	8.3%	$ 54,507	10.0%	$ 56,912	10.3%
Value of inventory at cost and as a percent of sales						
Prescription	$ 29,076	11.9%	$ 38,897	10.9%	$ 39,902	8.9%
Other	68,068	22.5%	39,576	20.7%	25,463	24.4%
Total	$ 97,144	17.8%	$ 78,473	14.3%	$ 65,365	11.8%
Annual rate of turnover of inventory	3.9 times		4.7 times		5.7 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.	
Prescription	355	$686.91	371	$963.64	451	$995.71
Other	3,080	98.18	2,137	88.79	1,268	80.12
Total	3,435	159.01	2,508	218.39	1,719	320.49
Sales per dollar invested in inventory						
Prescription	$8.38		$9.17		$11.24	
Other	4.45		4.83		4.11	
Net profit per dollar invested in inventory	$0.170		$0.230		$0.320	
Number of prescriptions dispensed						
New	10,137	48.8%	15,400	48.6%	20,272	47.3%
Renewed	10,654	51.2%	16,266	51.4%	22,567	52.7%
Total	20,791	100.0%	31,666	100.0%	42,839	100.0%
Prescription charge	$11.72		$11.26		$10.47	
Number of hours per week						
Pharmacy was open	69 hours		65 hours		60 hours	
Worked by proprietor	50 hours		48 hours		45 hours	
Worked by employed pharmacist(s)	43 hours		45 hours		48 hours	

*Based on averages of pharmacies that reported all data

Total Sales

$600,000-$750,000

TABLE 13

Find and Compare Sales
$500,000-$750,000

Under 75 Prescriptions Daily (48 Pharmacies)	75 to 100 Prescriptions Daily (45 Pharmacies)	100 to 125 Prescriptions Daily (51 Pharmacies)	Over 125 Prescriptions Daily (25 Pharmacies)
$267,567— 40.0%	$359,904— 54.8%	$458,310— 67.9%	$535,753— 79.8%
401,907— 60.0%	297,018— 45.2%	216,657— 32.1%	135,293— 20.2%
$669,474—100.0%	$656,922—100.0%	$674,967—100.0%	$671,046—100.0%
449,794— 67.2%	435,562— 66.3%	448,617— 66.5%	430,216— 64.1%
$219,680— 32.8%	$221,360— 33.7%	$226,350— 33.5%	$240,830— 35.9%
$ 35,361— 5.3%	$ 36,578— 5.6%	$ 35,560— 5.3%	$ 45,463— 6.8%
80,265— 12.0%	76,626— 11.7%	74,239— 11.0%	67,565— 10.1%
16,941— 2.5%	16,018— 2.4%	14,354— 2.1%	12,389— 1.8%
5,818— 0.9%	5,425— 0.8%	5,514— 0.8%	3,853— 0.6%
2,590— 0.4%	2,553— 0.4%	3,428— 0.5%	3,054— 0.5%
10,967— 1.6%	10,696— 1.6%	9,928— 1.5%	9,085— 1.4%
7,322— 1.1%	6,582— 1.0%	7,900— 1.2%	7,394— 1.1%
6,479— 1.0%	4,606— 0.7%	4,377— 0.6%	2,602— 0.4%
2,796— 0.4%	2,192— 0.3%	2,295— 0.3%	3,021— 0.5%
1,854— 0.3%	2,292— 0.4%	3,816— 0.6%	3,445— 0.5%
8,291— 1.2%	6,902— 1.1%	6,658— 1.0%	5,102— 0.8%
6,782— 1.0%	6,831— 1.0%	8,069— 1.2%	7,985— 1.2%
632— 0.1%	749— 0.1%	845— 0.1%	1,768— 0.2%
2,206— 0.3%	2,123— 0.3%	2,368— 0.3%	2,331— 0.3%
19,775— 3.0%	17,527— 2.7%	22,138— 3.3%	21,172— 3.1%
11.3%	10.4%	11.4%	10.6%
$208,279— 31.1%	$197,700— 30.1%	$201,489— 29.8%	$196,229— 29.3%
$ 11,401— 1.7%	$ 23,660— 3.6%	$ 24,861— 3.7%	$ 44,601— 6.6%
35,361— 5.3%	36,578— 5.6%	35,560— 5.3%	45,463— 6.8%
$ 46,762— 7.0%	$ 60,238— 9.2%	$ 60,421— 9.0%	$ 90,064— 13.4%
$ 30,256— 11.3%	$ 39,315— 10.9%	$ 44,179— 9.6%	$ 48,527— 9.1%
82,337— 20.5%	59,828— 20.1%	48,522— 22.4%	27,246— 20.1%
$112,593— 16.8%	$ 99,143— 15.1%	$ 92,701— 13.7%	$ 75,773— 11.3%
4.1 times	4.5 times	5.0 times	5.9 times
sq. ft. 354 $754.28	sq. ft. 393 $907.97	sq. ft. 456 $1,014.84	sq. ft. 558 $951.51
3,375 119.51	2,868 104.59	2,285 93.07	1,914 73.10
3,729 179.78	3,261 201.50	2,741 246.59	2,472 271.24
$8.84	$9.15	$10.37	$11.04
4.88	4.96	4.47	4.97
$0.100	$0.240	$0.270	$0.590
10,536— 48.5%	16,170— 50.4%	19,655— 48.6%	24,644— 48.5%
11,204— 51.5%	15,939— 49.6%	20,818— 51.4%	26,213— 51.5%
21,740—100.0%	32,109—100.0%	40,473—100.0%	50,857—100.0%
$12.31	$11.21	$11.32	$10.53
67 hours	66 hours	64 hours	62 hours
49 hours	45 hours	47 hours	49 hours
50 hours	54 hours	44 hours	52 hours

Averages per Pharmacy	Total Sales $750,000-$1,000,000					
	Under 100 Prescriptions Daily (36 Pharmacies)		100 to 125 Prescriptions Daily (42 Pharmacies)		Over 125 Prescriptions Daily (64 Pharmacies)	
Sales						
Prescription	$318,493	37.3%	$453,360	52.5%	$641,380	73.2%
Other	534,935	62.7%	409,545	47.5%	234,388	26.8%
Total	$853,428	100.0%	$862,905	100.0%	$875,768	100.0%
Cost of goods sold	583,031	68.3%	579,211	67.1%	587,010	67.0%
Gross margin	$270,397	31.7%	$283,694	32.9%	$288,758	33.0%
Expenses						
Proprietor's or manager's salary	$ 37,698	4.4%	$ 39,062	4.5%	$ 40,086	4.6%
Employees' wages	100,896	11.8%	101,686	11.8%	104,963	12.0%
Rent	20,381	2.4%	18,947	2.2%	17,632	2.0%
Heat, light, and power	8,183	1.0%	7,530	0.9%	5,595	0.6%
Accounting, legal, and other professional fees	2,538	0.3%	3,830	0.5%	4,725	0.5%
Taxes (except on buildings, income, and profit) and licenses	12,485	1.5%	13,746	1.6%	13,235	1.5%
Insurance (except on buildings)	8,672	1.0%	8,439	1.0%	9,582	1.1%
Interest paid	6,061	0.7%	7,368	0.9%	5,037	0.6%
Repairs	3,521	0.4%	3,778	0.4%	3,022	0.4%
Delivery	2,315	0.3%	2,994	0.3%	4,618	0.5%
Advertising	11,831	1.4%	11,625	1.3%	7,973	0.9%
Depreciation (except on buildings)	7,448	0.9%	9,568	1.1%	8,976	1.0%
Bad debts charged off	1,379	0.1%	816	0.1%	1,124	0.1%
Telephone	2,112	0.2%	2,761	0.3%	2,997	0.4%
Miscellaneous	23,007	2.7%	28,426	3.3%	30,437	3.5%
	10.5%		11.7%		11.1%	
Total expenses	$248,527	29.1%	$260,576	30.2%	$260,002	29.7%
Net profit (before taxes)	$ 21,870	2.6%	$ 23,118	2.7%	$ 28,756	3.3%
Add proprietor's withdrawals	37,698	4.4%	39,062	4.5%	40,086	4.6%
Total income of self-employed proprietor (before taxes on income and profits)	$ 59,568	7.0%	$ 62,180	7.2%	$ 68,842	7.9%
Value of inventory at cost and as a percent of sales						
Prescription	$ 33,921	10.7%	$ 44,132	9.7%	$ 55,953	8.7%
Other	105,447	19.7%	77,120	18.8%	47,054	20.1%
Total	$139,368	16.3%	$121,252	14.1%	$103,007	11.8%
Annual rate of turnover of inventory	4.3 times		5.0 times		6.0 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.	
Prescription	351	$896.69	502	$901.55	489	$1,306.61
Other	4,196	128.24	3,344	123.99	2,237	107.06
Total	4,547	187.60	3,846	225.44	2,726	322.12
Sales per dollar invested in inventory						
Prescription		$9.38		$10.27		$11.46
Other		5.07		5.31		4.98
Net profit per dollar invested in inventory		$0.160		$0.190		$0.280
Number of prescriptions dispensed						
New	14,570	53.3%	20,203	50.5%	30,170	48.0%
Renewed	12,769	46.7%	19,828	49.5%	32,634	52.0%
Total	27,339	100.0%	40,031	100.0%	62,804	100.0%
Prescription charge	$11.65		$11.33		$10.21	
Number of hours per week						
Pharmacy was open	72 hours		70 hours		67 hours	
Worked by proprietor	45 hours		47 hours		49 hours	
Worked by employed pharmacist(s)	64 hours		61 hours		71 hours	

*Based on averages of pharmacies that reported all data

TABLE 14

Find and Compare Sales over $750,000

Total Sales $1,000,000-$1,500,000			Total Sales Over $1,500,000
Under 100 Prescriptions Daily (25 Pharmacies)	100 to 150 Prescriptions Daily (44 Pharmacies)	Over 150 Prescriptions Daily (43 Pharmacies)	(34 Pharmacies)
$ 315,531— 26.9%	$ 511,886— 43.5%	$ 795,785— 67.1%	$ 723,913— 35.9%
857,747— 73.1%	665,343— 56.5%	389,568— 32.9%	1,290,497— 64.1%
$1,173,278—100.0%	$1,177,229—100.0%	$1,185,353—100.0%	$2,014,410—100.0%
819,637— 69.9%	793,612— 67.4%	805,174— 67.9%	1,434,626— 71.2%
$ 353,641— 30.1%	$ 383,617— 32.6%	$ 380,179— 32.1%	$ 579,784— 28.8%
$ 44,500— 3.8%	$ 44,998— 3.8%	$ 50,167— 4.2%	$ 58,552— 2.9%
135,130— 11.5%	152,338— 12.9%	142,556— 12.0%	236,442— 11.7%
35,919— 3.1%	27,123— 2.3%	20,189— 1.7%	43,524— 2.2%
10,981— 0.9%	11,407— 1.0%	8,022— 0.7%	15,206— 0.8%
4,156— 0.3%	5,228— 0.4%	3,910— 0.3%	6,511— 0.3%
15,659— 1.3%	17,934— 1.5%	18,355— 1.6%	29,625— 1.5%
8,808— 0.8%	13,534— 1.2%	11,314— 1.0%	17,777— 0.9%
8,563— 0.7%	8,780— 0.8%	7,271— 0.6%	11,456— 0.6%
4,678— 0.4%	4,825— 0.4%	3,844— 0.3%	6,928— 0.3%
2,834— 0.2%	3,399— 0.3%	3,907— 0.3%	5,055— 0.3%
16,511— 1.4%	14,755— 1.3%	11,446— 1.0%	20,958— 1.0%
13,983— 1.2%	12,863— 1.1%	13,380— 1.1%	17,789— 0.9%
887— 0.1%	1,427— 0.1%	1,373— 0.1%	2,016— 0.1%
3,451— 0.3%	3,831— 0.3%	3,260— 0.3%	4,517— 0.2%
31,539— 2.7%	34,464— 2.9%	36,249— 3.1%	55,066— 2.7%
10.3%	11.3%	10.4%	9.6%
$ 337,599— 28.7%	$ 356,906— 30.3%	$ 335,243— 28.3%	$ 531,422— 26.4%
$ 16,042— 1.4%	$ 26,711— 2.3%	$ 44,936— 3.8%	$ 48,362— 2.4%
44,500— 3.8%	44,998— 3.8%	50,167— 4.2%	58,552— 2.9%
$ 60,542— 5.2%	$ 71,709— 6.1%	$ 95,103— 8.0%	$ 106,914— 5.3%
$ 37,040— 11.7%	$ 54,667— 10.7%	$ 65,446— 8.2%	$ 63,093— 8.7%
149,467— 17.4%	126,704— 19.0%	72,889— 18.7%	196,735— 15.2%
$ 186,507— 15.9%	$ 181,371— 15.4%	$ 138,335— 11.7%	$ 259,828— 12.9%
4.5 times	4.5 times	6.0 times	5.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.
443 $713.96	567 $898.75	572 $1,411.50	532 $1,379.71
4,839 176.08	4,308 155.58	3,173 119.01	5,313 228.07
5,282 221.17	4,875 242.07	3,745 316.61	5,845 332.89
$8.52	$9.36	$12.16	$11.47
5.74	5.25	5.34	6.56
$0.090	$0.150	$0.320	$0.190
14,175— 51.8%	22,582— 50.3%	36,999— 49.0%	35,523— 52.8%
13,165— 48.2%	22,282— 49.7%	38,532— 51.0%	31,740— 47.2%
27,340—100.0%	44,864—100.0%	75,531—100.0%	67,263—100.0%
$11.54	$11.41	$10.54	$10.76
77 hours	75 hours	71 hours	84 hours
48 hours	48 hours	49 hours	48 hours
79 hours	81 hours	81 hours	116 hours

Net Profit

The high level of pharmaceutical service that patients have come to expect can be maintained by community pharmacy managers only as long as sufficient profit is generated by the store. Profit is needed for working capital requirements, returns to investors, and retained earnings. When faced with continual losses, pharmacists must eventually borrow capital. Borrowing usually results in a higher interest expense and the potential for even larger losses. As losses increase, borrowing will become increasingly difficult, and lenders will finally refuse funds for these operations. In the absence of the required capital, either from lenders' or owners' investment, such businesses will eventually fail, and their services will be lost to the community.

Table 15 indicates that 15% of all pharmacies reporting during 1983 operated at a loss—up from 14% in 1982. In addition, 21% of stores submitting data realized a net profit of less than 2%—unchanged from the prior year. At the other end of the profit range, 10% (down from 11% the previous year) showed a net profit of 10% or more. Overall, the data in Table 15 suggest that there was a slight decline in the net profit position among stores reporting for 1983, when compared with statistics for 1982.

Table 15 *Net profit according to sales size*

	Under $150,000	$150,000-$200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	This Year	Last Year
Number of Pharmacies	60	99	115	140	139	145	111	114	167	169	142	146	1,547	1,528
Net Profit as a Percent of Sales														
Operating at a loss	44%	28%	21%	20%	18%	15%	15%	17%	7%	10%	12%	6%	15%	14%
Less than 2%	14%	16%	18%	22%	17%	18%	18%	23%	25%	23%	19%	31%	21%	21%
2% to 5%	15%	22%	33%	26%	30%	25%	30%	32%	31%	39%	40%	37%	31%	31%
5% to 7.5%	15%	13%	15%	15%	12%	20%	19%	16%	20%	9%	16%	15%	16%	16%
7.5% to 10%	2%	11%	7%	4%	9%	12%	8%	6%	7%	7%	5%	6%	7%	7%
10% and over	10%	10%	6%	13%	14%	10%	10%	6%	10%	12%	8%	5%	10%	11%

Table 16 *Turnover comparison (percent of sales)*

	Fast Turnover (228 Pharmacies)	Slow Turnover (337 Pharmacies)
Total sales	100.0%	100.0%
Cost of goods sold	68.4%	65.3%
Gross margin	31.6%	34.7%
Employees' wages	9.3%	11.4%
Rent and miscellaneous expenses	12.2%	15.0%
Total expenses (less proprietor's salary)	21.5%	26.4%
Total income (proprietor's salary plus net profit)	10.0%	8.3%
Total inventory	7.7%	21.4%
Inventory turnover	8.9 times	3.0 times

Turnover—Table 16 presents some important operating statistics from a group of pharmacies with a high rate of inventory turnover and from another group with a low turnover rate. This information confirms what many pharmacist-managers have come to realize—by controlling their inventory investment and maintaining a high turnover rate, their total income can be improved. When the two categories are compared, pharmacies in the high turnover group average smaller inventories that were purchased at somewhat higher prices, which serves to lower gross margin. However, the comparatively low gross margin is more than compensated for by the lower costs associated with carrying a smaller inventory. Because of this expense control, pharmacies with the fast turnover rate produced a higher total income.

Regional Variations

Geographic location has an influence on the operating statistics of pharmacies, as shown in Tables 17 and 18. It has been suggested that sales and expenses are altered by regional factors, such as the cost of living, pharmacy manpower, population density, the ratio of population to pharmacies, and, perhaps, state health programs.

Following the trend of recent years, the Pacific States reported the highest average prescription charge. They also had the lowest cost of goods sold and, therefore, the highest gross margin as a percent of sales; however, because of their higher total expenses, their net profit percentage was among the lowest. The New England States recorded the largest number of prescriptions dispensed during 1983, whereas the Mountain States reported the lowest volume. Pharmacies in the East South Central States, on the average, had the highest ratio of prescription revenue to total sales as well as the lowest average prescription charge but showed the highest net profit as a percent of sales.

Net profit before taxes, as a percent of sales, was lowest in the New England, East North Central, and Pacific States, with the New England States submitting the higher dollar figure. Net profit per dollar of inventory investment was greatest in the East South Central States and least in the Mountain and Pacific States. The largest dollar increase in average net profit during 1983 occurred in the New England States (up over 64%), whereas the Middle Atlantic States reported the greatest loss of net profit dollars (down almost 13% from the 1982 figure).

Rental expense ranged from a low of 2% of sales in the New England and Middle Atlantic States to a high of 3.2% in the Pacific Region. The Mountain States again reported the largest floor area. The East South Central States had the lowest sales per square foot of space, and the New England States recorded the highest. The New England region posted the most pharmacy hours open per week and employed pharmacist hours. Stores in the Pacific States reported the fewest pharmacy hours open during 1983.

Table 17 *Geographic summary of average prescription charge and net profit*

Geographic Region	Average Prescription Charge	Average Net Profit
New England States	$10.75	2.4%
Middle Atlantic States	10.25	2.6%
East North Central States. . . .	11.13	2.4%
West North Central States . . .	10.79	3.3%
South Atlantic States	10.24	3.5%
East South Central States . . .	9.89	4.1%
West South Central States . . .	11.23	3.8%
Mountain States	11.49	2.5%
Pacific States	12.50	2.4%
LILLY DIGEST Average.	10.89	2.9%

Table 18 was designed to show comparison between regions. It is suggested that an individual pharmacy first compare its operating data with statistics in the "Heart of the LILLY DIGEST." The regional information may then be used to explain variations from the usual averages for a more meaningful evaluation.

Table 18 *Summary by geographic regions in 1983*

Averages per Pharmacy	New England States (76 Pharmacies)		Middle Atlantic States (153 Pharmacies)		East North Central States (355 Pharmacies)		West North Central States (232 Pharmacies)	
Sales								
Prescription	$347,641	53.2%	$322,084	55.8%	$339,672	58.0%	$262,816	57.2%
Other	305,341	46.8%	255,460	44.2%	246,348	42.0%	196,741	42.8%
Total	$652,982	100.0%	$577,544	100.0%	$586,020	100.0%	$459,557	100.0%
Cost of goods sold	443,292	67.9%	397,595	68.8%	402,530	68.7%	307,698	67.0%
Gross margin	$209,690	32.1%	$179,949	31.2%	$183,490	31.3%	$151,859	33.0%
Expenses								
Proprietor's or manager's salary	$ 35,289	5.4%	$ 32,775	5.7%	$ 32,125	5.5%	$ 29,217	6.4%
Employees' wages	76,282	11.7%	61,219	10.6%	61,561	10.5%	46,514	10.1%
Rent	13,285	2.0%	11,779	2.0%	12,913	2.2%	11,286	2.5%
Heat, light, and power	5,157	0.8%	4,979	0.9%	5,147	0.9%	3,876	0.8%
Accounting, legal, and other professional fees	2,697	0.4%	2,337	0.4%	2,792	0.5%	1,650	0.4%
Taxes (except on buildings, income, and profit) and licenses	10,250	1.6%	8,417	1.5%	9,296	1.6%	5,915	1.3%
Insurance (except on buildings)	7,687	1.2%	6,479	1.1%	5,698	1.0%	3,797	0.8%
Interest paid	3,127	0.5%	3,993	0.7%	4,405	0.7%	3,748	0.8%
Repairs	2,425	0.4%	2,220	0.4%	2,125	0.4%	1,414	0.3%
Delivery	2,790	0.4%	2,844	0.5%	2,119	0.4%	1,705	0.4%
Advertising	6,009	0.9%	4,953	0.9%	6,436	1.1%	6,436	1.4%
Depreciation (except on buildings)	7,500	1.1%	5,887	1.0%	6,247	1.0%	4,626	1.0%
Bad debts charged off	603	0.1%	535	0.1%	478	0.1%	670	0.1%
Telephone	2,517	0.4%	1,862	0.3%	1,848	0.3%	1,630	0.4%
Miscellaneous	18,210	2.8%	14,259	2.5%	16,189	2.7%	13,902	3.0%
		10.6%		10.3%		10.7%		10.7%
Total expenses	$193,828	29.7%	$164,538	28.6%	$169,379	28.9%	$136,386	29.7%
Net profit (before taxes)	$ 15,862	2.4%	$ 15,411	2.6%	$ 14,111	2.4%	$ 15,473	3.3%
Add proprietor's withdrawals	35,289	5.4%	32,775	5.7%	32,125	5.5%	29,217	6.4%
Total income of self-employed proprietor (before taxes on income and profits)	$ 51,151	7.8%	$ 48,186	8.3%	$ 46,236	7.9%	$ 44,690	9.7%
Value of inventory at cost and as a percent of sales								
Prescription	$ 36,765	10.6%	$ 36,228	11.2%	$ 35,239	10.4%	$ 30,401	11.6%
Other	49,805	16.3%	41,715	16.3%	49,720	20.2%	46,839	23.8%
Total	$ 86,570	13.3%	$ 77,943	13.5%	$ 84,959	14.5%	$ 77,240	16.8%
Annual rate of turnover of inventory	5.3 times		5.3 times		4.9 times		4.1 times	
Size of area and sales per square foot*	sq. ft.		sq. ft.		sq. ft.		sq. ft.	
Prescription	368	$940.15	413	$781.26	393	$855.01	342	$759.99
Other	1,818	168.24	1,752	142.18	2,242	105.77	1,985	96.61
Total	2,186	298.23	2,165	263.96	2,635	217.51	2,327	194.07
Sales per dollar invested in inventory								
Prescription	$9.46		$8.89		$9.64		$8.64	
Other	6.13		6.12		4.95		4.20	
Net profit per dollar invested in inventory	$0.183		$0.198		$0.166		$0.200	
Number of prescriptions dispensed								
New	15,858	49.0%	16,245	51.7%	14,962	49.0%	11,582	47.5%
Renewed	16,484	51.0%	15,179	48.3%	15,570	51.0%	12,784	52.5%
Total	32,342	100.0%	31,424	100.0%	30,532	100.0%	24,366	100.0%
Prescription charge	$10.75		$10.25		$11.13		$10.79	
Number of hours per week								
Pharmacy was open	70 hours		68 hours		64 hours		60 hours	
Worked by proprietor	47 hours		50 hours		47 hours		48 hours	
Worked by employed pharmacist(s)	57 hours		45 hours		40 hours		34 hours	

*Based on averages of pharmacies that reported all data

South Atlantic States (215 Pharmacies)	East South Central States (115 Pharmacies)	West South Central States (139 Pharmacies)	Mountain States (84 Pharmacies)	Pacific States (178 Pharmacies)	U.S. Average (1,547 Pharmacies)
$321,130— 61.2%	$291,712— 68.3%	$331,605— 65.9%	$224,470— 42.9%	$302,110— 59.9%	$309,354— 58.5%
203,422— 38.8%	135,643— 31.7%	171,486— 34.1%	298,504— 57.1%	201,952— 40.1%	219,510— 41.5%
$524,552—100.0%	$427,355—100.0%	$503,091—100.0%	$522,974—100.0%	$504,062—100.0%	$528,864—100.0%
346,901— 66.1%	277,939— 65.0%	326,597— 64.9%	351,611— 67.2%	319,360— 63.4%	353,673— 66.9%
$177,651— 33.9%	$149,416— 35.0%	$176,494— 35.1%	$171,363— 32.8%	$184,702— 36.6%	$175,191— 33.1%
$ 33,482— 6.4%	$ 31,061— 7.3%	$ 30,773— 6.1%	$ 29,087— 5.6%	$ 32,504— 6.4%	$ 31,775— 6.0%
58,936— 11.2%	44,401— 10.4%	55,289— 11.0%	53,422— 10.2%	61,349— 12.2%	57,323— 10.8%
11,597— 2.2%	9,227— 2.2%	11,682— 2.3%	15,384— 2.9%	15,934— 3.2%	12,489— 2.4%
4,902— 0.9%	4,147— 1.0%	4,599— 0.9%	4,648— 0.9%	3,948— 0.8%	4,617— 0.9%
2,257— 0.4%	1,649— 0.4%	2,900— 0.6%	2,286— 0.4%	2,740— 0.5%	2,603— 0.5%
8,438— 1.6%	6,978— 1.6%	6,901— 1.4%	6,645— 1.3%	9,090— 1.8%	8,074— 1.5%
5,532— 1.1%	4,507— 1.1%	5,925— 1.2%	5,620— 1.1%	6,148— 1.2%	5,544— 1.0%
3,640— 0.7%	3,397— 0.8%	4,419— 0.9%	5,814— 1.1%	4,406— 0.9%	4,099— 0.8%
1,956— 0.4%	1,621— 0.4%	1,823— 0.4%	2,157— 0.4%	2,308— 0.4%	1,977— 0.4%
2,279— 0.4%	1,880— 0.4%	3,078— 0.6%	1,836— 0.4%	2,333— 0.4%	2,262— 0.4%
4,677— 0.9%	4,157— 1.0%	5,058— 1.0%	6,465— 1.2%	5,793— 1.1%	5,658— 1.1%
5,067— 1.0%	5,267— 1.2%	5,686— 1.1%	6,637— 1.3%	5,375— 1.1%	5,663— 1.1%
1,007— 0.2%	1,119— 0.3%	795— 0.2%	830— 0.2%	1,033— 0.2%	751— 0.1%
2,118— 0.4%	1,875— 0.4%	2,250— 0.4%	1,940— 0.4%	2,000— 0.4%	1,948— 0.4%
13,547— 2.6%	10,554— 2.4%	16,036— 3.2%	15,182— 2.9%	18,100— 3.6%	14,908— 2.8%
10.6%	11.0%	11.9%	11.6%	12.4%	11.0%
$159,435— 30.4%	$131,840— 30.9%	$157,214— 31.3%	$157,953— 30.3%	$173,061— 34.2%	$159,691— 30.2%
$ 18,216— 3.5%	$ 17,576— 4.1%	$ 19,280— 3.8%	$ 13,410— 2.6%	$ 11,641— 2.4%	$ 15,500— 2.9%
33,482— 6.4%	31,061— 7.3%	30,773— 6.1%	29,087— 5.6%	32,504— 6.4%	31,775— 6.0%
$ 51,698— 9.9%	$ 48,637— 11.4%	$ 50,053— 9.9%	$ 42,497— 8.1%	$ 44,145— 8.8%	$ 47,275— 8.9%
$ 33,874— 10.5%	$ 30,743— 10.5%	$ 37,553— 11.3%	$ 25,475— 11.3%	$ 29,088— 9.6%	$ 33,132— 10.7%
41,610— 20.5%	32,244— 23.8%	39,548— 23.1%	64,075— 21.5%	48,630— 24.1%	45,814— 20.9%
$ 75,484— 14.4%	$ 62,987— 14.7%	$ 77,101— 15.3%	$ 89,550— 17.1%	$ 77,718— 15.4%	$ 78,946— 14.9%
4.8 times	4.5 times	4.4 times	4.0 times	4.2 times	4.6 times
sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.	sq. ft.
404 $802.64	395 $731.09	419 $783.50	386 $581.27	400 $755.14	390 $787.95
2,159 95.38	2,127 64.59	1,981 85.06	2,552 118.99	2,098 97.28	2,089 103.94
2,563 206.83	2,522 169.02	2,400 206.96	2,938 179.74	2,498 202.58	2,479 211.56
$9.48	$9.49	$8.83	$8.81	$10.39	$9.34
4.89	4.21	4.34	4.66	4.15	4.79
$0.241	$0.279	$0.250	$0.150	$0.150	$0.196
14,892— 47.5%	13,234— 44.9%	13,941— 47.2%	10,243— 52.4%	12,770— 52.8%	13,887— 48.9%
16,463— 52.5%	16,269— 55.1%	15,593— 52.8%	9,289— 47.6%	11,407— 47.2%	14,517— 51.1%
31,355—100.0%	29,503—100.0%	29,534—100.0%	19,532—100.0%	24,177—100.0%	28,404—100.0%
$10.24	$9.89	$11.23	$11.49	$12.50	$10.89
63 hours	60 hours	57 hours	61 hours	56 hours	62 hours
47 hours	49 hours	47 hours	47 hours	44 hours	47 hours
40 hours	29 hours	36 hours	42 hours	37 hours	39 hours

Pharmacy Location

Pharmacy location is a primary factor to be considered when reviewing financial statistics. Chart 4 and Table 19 illustrate this effect on operating figures for 1983. No significant deviation was found in the distribution of retail pharmacies in comparison with 1982 data. The majority of stores contributing to the LILLY DIGEST were downtown and neighborhood pharmacies, although a slightly larger percentage of pharmacies reported downtown locations.

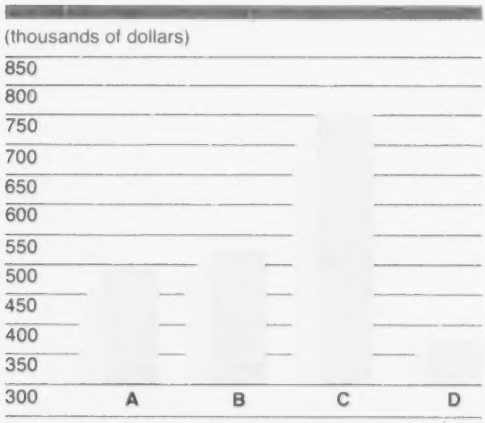
Shopping center locations accounted for the highest average sales, largest floor area, and greatest sales per dollar invested in prescription inventory. They also recorded the largest number of prescriptions dispensed and highest average prescription charge. These outlets posted the most hours open and the greatest number of employed pharmacist hours worked per week. However, shopping center stores reported the lowest gross margin and net profit figures as percents of sales. Total expenses were also lowest in this category but failed to offset a smaller gross margin, with the result that net profit was the lowest, at 2 percent of sales.

Neighborhood pharmacies improved their net profit picture—both in dollars and as a percent of sales (up 0.3 percent) when compared with 1982 figures. These changes appeared to come about through improvement in expense control measures.

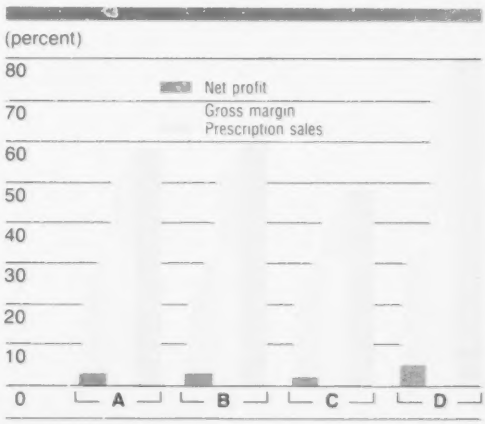
Medical office building pharmacies posted the fewest weekly hours open as well as the largest gross margin and net profit, expressed in dollars and as a percent of sales. Stores of this type spend more rental dollars per square foot ($12.10) than any of the other pharmacy locations. Net profit per dollar invested in inventory was highest in medical office building locations.

Chart 4 *The effect of location on pharmacy operating data*

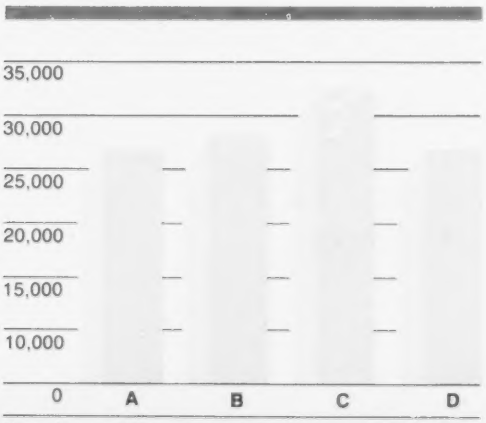
A Downtown
B Neighborhood
C Shopping Center
D Medical Office Building



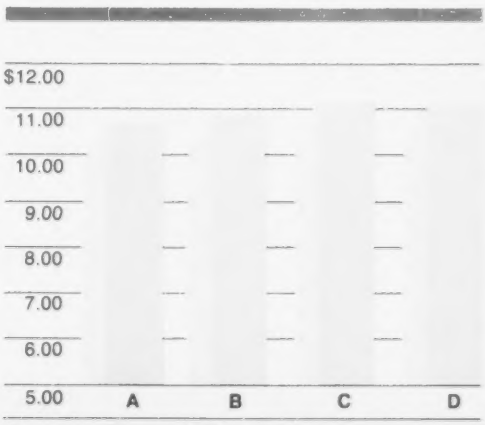
Total Sales Volume



Percent of Sales



Number of Prescriptions



Average Prescription Charge

Table 19 *Summary of pharmacy operations according to location*

Averages per Pharmacy	Downtown (554 Pharmacies)	Neighborhood (503 Pharmacies)	Shopping Center (221 Pharmacies)	Medical Office Building (218 Pharmacies)
Sales				
Prescription	$289,523— 58.0%	$311,439— 59.1%	$364,083— 48.2%	$300,724— 79.5%
Other	210,054— 42.0%	215,326— 40.9%	390,625— 51.8%	77,343— 20.5%
Total	$499,577—100.0%	$526,765—100.0%	$754,708—100.0%	$378,067—100.0%
Cost of goods sold	334,377— 66.9%	354,179— 67.2%	515,232— 68.3%	235,772— 62.4%
Gross margin	$165,200— 33.1%	$172,586— 32.8%	$239,476— 31.7%	$142,295— 37.6%
Expenses				
Proprietor's or manager's salary	$ 30,351— 6.1%	$ 31,922— 6.1%	$ 37,204— 4.9%	$ 29,698— 7.9%
Employees' wages	54,989— 11.0%	56,507— 10.7%	84,302— 11.2%	38,613— 10.2%
Rent	9,447— 1.9%	11,798— 2.2%	21,212— 2.8%	12,811— 3.4%
Heat, light, and power	4,682— 0.9%	4,949— 0.9%	6,753— 0.9%	1,530— 0.4%
Accounting, legal, and other professional fees	2,013— 0.4%	2,502— 0.5%	3,259— 0.4%	2,214— 0.6%
Taxes (except on buildings, income, and profit) and licenses	7,609— 1.5%	8,355— 1.6%	10,950— 1.4%	5,671— 1.5%
Insurance (except on buildings)	5,125— 1.0%	5,731— 1.1%	7,423— 1.0%	4,192— 1.1%
Interest paid	4,294— 0.9%	3,778— 0.7%	5,747— 0.8%	2,532— 0.7%
Repairs	1,962— 0.4%	2,082— 0.4%	2,752— 0.4%	915— 0.2%
Delivery	1,845— 0.4%	2,495— 0.5%	2,634— 0.3%	2,453— 0.6%
Advertising	6,173— 1.2%	4,866— 0.9%	9,053— 1.2%	2,878— 0.8%
Depreciation (except on buildings)	5,327— 1.1%	5,792— 1.1%	7,956— 1.1%	3,811— 1.0%
Bad debts charged off	742— 0.2%	681— 0.1%	849— 0.1%	820— 0.2%
Telephone	1,710— 0.3%	1,967— 0.4%	2,481— 0.3%	1,922— 0.5%
Miscellaneous	13,461— 2.7%	14,412— 2.8%	22,078— 2.9%	14,275— 3.7%
Total expenses	$149,730— 30.0%	$157,837— 30.0%	$224,653— 29.7%	$124,335— 32.9%
Net profit (before taxes)	$ 15,470— 3.1%	$ 14,749— 2.8%	$ 14,823— 2.0%	$ 17,960— 4.7%
Add proprietor's withdrawals	30,351— 6.1%	31,922— 6.1%	37,204— 4.9%	29,698— 7.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 45,821— 9.2%	$ 46,671— 8.9%	$ 52,027— 6.9%	$ 47,658— 12.6%
Value of inventory at cost and as a percent of sales				
Prescription	$ 31,284— 10.8%	$ 33,338— 10.7%	$ 36,028— 9.9%	$ 32,822— 10.9%
Other	48,921— 23.3%	43,841— 20.4%	77,130— 19.7%	12,997— 16.8%
Total	$ 80,205— 16.1%	$ 77,179— 14.7%	$113,158— 15.0%	$ 45,819— 12.1%
Annual rate of turnover of inventory	4.3 times	4.7 times	4.7 times	5.3 times
Size of area and sales per square foot*	sq. ft.	sq. ft.	sq. ft.	sq. ft.
Prescription	365 $793.66	376 $817.76	417 $864.39	452 $667.79
Other	2,255 94.13	2,089 101.35	3,166 121.46	607 120.46
Total	2,620 198.16	2,465 227.76	3,583 216.50	1,059 374.21
Sales per dollar invested in inventory				
Prescription	$9.25	$9.34	$10.11	$9.16
Other	4.29	4.91	5.06	5.95
Net profit per dollar invested in inventory	$0.193	$0.191	$0.131	$0.392
Number of prescriptions dispensed				
New	12,489— 46.3%	13,929— 48.8%	16,140— 49.4%	14,953— 55.1%
Renewed	14,479— 53.7%	14,593— 51.2%	16,565— 50.6%	12,175— 44.9%
Total	26,968—100.0%	28,522—100.0%	32,705—100.0%	27,128—100.0%
Prescription charge	$10.74	$10.92	$11.13	$11.09
Number of hours per week				
Pharmacy was open	61 hours	64 hours	68 hours	51 hours
Worked by proprietor	49 hours	48 hours	47 hours	41 hours
Worked by employed pharmacist(s)	38 hours	39 hours	49 hours	30 hours

*Based on averages of pharmacies that reported all data

Rent

The average rental expense for all pharmacies reporting to the LILLY DIGEST rose 3.9% in dollars but remained unchanged as a percent of sales during 1983. Perhaps one explanation for the overall consistency of the rental rate over time is the long-term nature of rental agreements. These agreements are usually the result of considerable negotiation between lessee and lessor. Rental leases for drugstore operations specify rental payments in terms of percentages of sales, dollar figures per square foot occupied, total monthly or yearly dollar sales, or some combination of these.

Table 20 summarizes rental expense as a percent of sales according to sales size. The distribution of rental expense has changed very little from that reported in last year's DIGEST. The majority of pharmacies (56.1%) paid 2.5% or less for rent. A total of 1,234, or 79.8 percent, of respondents said they spent less than 3.5% of sales on rental expense.

Table 21 is designed to permit evaluation of a pharmacy's rent from several different points of view. All the sections of the table should be reviewed, so that a proper perspective of the influence of these variables on rental expense can be determined.

Section A shows the effect of total sales volume on rent. As sales increase, rent generally declines as a percent of sales, although it rises dollarwise. In larger operations, rent is higher in dollars, but the sales productivity per square foot is much greater.

Section B illustrates how the size of the pharmacy tends to decrease as the percentage of prescription revenue to total sales increases. Rent, expressed both in dollars and as a percent of sales, generally declines until the highest prescription categories are reached. These prescription-oriented operations are probably located in medical office buildings, which characteristically charge higher rents.

When the number of prescriptions dispensed daily increases, there is a rise in total sales volume. Section C reveals that as sales volume advances, rent tends to decline percentagewise. This closely parallels the information found in Section A.

The influence of store age on rental expenditure is presented in Section D. As a pharmacy matures, total sales rise, and rent generally declines as a percent of sales. Stores in operation less than two years have the lowest sales per square foot but pay the highest rent as a percent of total sales, partially because of the fixed nature of this expense item.

Section E correlates rental expense with geographic region. The Pacific States reported the highest rent per square foot of floor area, whereas the East South Central States had the lowest rate. The New England and Middle Atlantic States reported the lowest rental percentage and recorded among the highest average sales.

Table 20 *Rental percentages by sales size*

	Under $150,000	$150,000-$200,000	$200,000-$250,000	$250,000-$300,000	$300,000-$350,000	$350,000-$400,000	$400,000-$450,000	$450,000-$500,000	$500,000-$600,000	$600,000-$750,000	$750,000-$1,000,000	Over $1,000,000	Total	Percent of Pharmacies
Number of Pharmacies	60	99	115	140	139	145	111	114	167	169	142	146	1,547	100.0%
Rent as a Percent of Sales														
Less than 1.5%	4	10	17	30	25	42	27	36	42	48	49	37	367	23.7%
1.5% to 2.5%	13	22	42	39	43	56	45	31	64	54	43	49	501	32.4%
2.5% to 3.5%	11	30	28	42	28	30	21	31	34	43	27	41	366	23.7%
3.5% to 4.5%	6	20	11	14	24	10	7	7	16	15	17	13	160	10.3%
4.5% to 5.5%	11	9	5	4	11	5	5	5	5	6	—	4	70	
5.5% to 6.5%	2	1	3	8	4	2	5	2	5	2	4	2	40	
6.5% to 7.5%	1	3	6	1	1	—	—	—	—	—	1	—	13	
7.5% to 8.5%	3	—	2	—	1	—	—	2	—	1	1	—	10	
8.5% to 9.5%	2	1	—	1	—	—	—	—	—	—	—	—	4	9.9%
9.5% to 10.5%	4	—	—	—	1	—	—	—	—	—	—	—	5	
10.5% to 11.5%	3	2	—	1	—	—	1	—	1	—	—	—	8	
11.5% to 12.5%	—	—	1	—	—	—	—	—	—	—	—	—	1	
12.5% and over	—	1	—	—	1	—	—	—	—	—	—	—	2	

Table 21 *Rent correlated with various factors*

	Average Sales	Size of Pharmacy (Sq. Ft.)*	Sales per Square Foot	Average Rent	Rent per Square Foot	Rent Percentage
A Annual Sales						
Under $150,000	$ 119,631	1,026	$117.73	$ 5,234	$5.10	4.4%
$150,000 to $200,000	177,935	1,281	138.78	6,025	4.70	3.4%
$200,000 to $250,000	226,661	1,455	155.71	6,579	4.52	2.9%
$250,000 to $300,000	275,278	1,643	167.80	7,278	4.43	2.6%
$300,000 to $350,000	325,180	1,917	169.60	9,143	4.77	2.8%
$350,000 to $400,000	374,927	2,095	178.94	8,070	3.85	2.2%
$400,000 to $450,000	422,841	2,273	186.01	10,155	4.47	2.4%
$450,000 to $500,000	474,208	2,409	196.90	10,839	4.50	2.3%
$500,000 to $600,000	549,066	2,553	214.70	12,924	5.06	2.4%
$600,000 to $750,000	668,022	3,127	213.85	15,241	4.87	2.3%
$750,000 to $1,000,000	866,300	3,544	244.98	18,718	5.28	2.2%
$1,000,000 to $1,500,000	1,179,466	4,544	259.59	26,424	5.82	2.2%
Over $1,500,000	2,014,410	5,845	322.89	43,524	7.45	2.2%
B Percentage of Prescription Volume to Total Sales						
Under 30%	$1,072,258	4,675	$212.51	$29,544	$6.32	2.8%
30% to 35%	826,251	3,896	212.06	20,419	5.24	2.5%
35% to 40%	794,672	3,857	201.98	17,886	4.64	2.3%
40% to 45%	668,338	3,517	190.48	16,999	4.83	2.5%
45% to 50%	527,517	2,877	183.63	13,144	4.57	2.5%
50% to 55%	539,828	2,935	186.04	11,929	4.06	2.2%
55% to 60%	548,905	2,814	193.66	11,989	4.26	2.2%
60% to 75%	460,019	2,322	196.84	10,124	4.36	2.2%
Over 75%	413,761	1,447	284.39	10,017	6.92	2.4%
C Number of Prescriptions Dispensed Daily						
Under 25	$ 169,835	1,441	$122.32	$ 6,063	$4.21	3.6%
25 to 35	244,430	1,874	133.60	7,156	3.82	2.9%
35 to 50	312,127	2,037	161.81	8,713	4.28	2.8%
50 to 60	407,833	2,327	185.32	10,630	4.57	2.6%
60 to 75	462,877	2,508	195.14	11,691	4.66	2.5%
75 to 100	557,780	2,569	232.99	12,930	5.03	2.3%
100 to 125	759,387	3,039	269.09	17,356	5.71	2.3%
125 to 150	885,071	3,197	296.63	19,285	6.03	2.2%
150 to 200	1,094,342	3,346	383.49	20,698	6.19	1.9%
Over 200	1,311,215	3,630	376.60	23,007	6.34	1.8%
D Number of Years Pharmacy Has Been in Operation						
Less than 2 years	$ 351,035	2,117	$165.85	$10,962	$5.18	3.1%
2 to 5 years	421,301	2,007	209.92	10,864	5.41	2.6%
5 to 10 years	466,318	2,243	207.86	11,920	5.31	2.6%
Over 10 years	603,528	2,783	216.82	13,468	4.84	2.2%
E Geographic Region						
New England States	$ 652,982	2,186	$298.23	$13,285	$6.08	2.0%
Middle Atlantic States	577,544	2,165	263.96	11,779	5.44	2.0%
East North Central States	586,020	2,635	217.51	12,913	4.90	2.2%
West North Central States	459,557	2,327	194.07	11,286	4.85	2.5%
South Atlantic States	524,552	2,563	206.83	11,597	4.52	2.2%
East South Central States	427,355	2,522	169.02	9,227	3.66	2.2%
West South Central States	503,091	2,400	206.96	11,682	4.87	2.3%
Mountain States	522,974	2,938	179.74	15,384	5.24	2.9%
Pacific States	504,062	2,498	202.58	15,934	6.38	3.2%
LILLY DIGEST Average	528,864	2,479	211.56	12,489	5.04	2.4%

*Based on averages of pharmacies that reported all data

Balance Sheet and Financial Ratios

The primary objective of a business is to earn a satisfactory return on the funds invested in it, consistent with maintaining a sound financial position. Pharmacist-owners should review the balance sheet data from the standpoint of a capital investor, relate income to the permanent funds invested, and evaluate the overall liquidity and solvency of the business. By relating the asset and liability position to sales and profit figures (Table 22), the owner-investor can judge how effectively the assets are being utilized. Financial ratios developed from balance sheet information can be used to measure asset usage (return on asset investment); the liquidity of the business, or its ability to meet current obligations (current ratio); and the general solvency of the firm (debt-equity ratio).

The ability to analyze business operations by examining and interpreting accounting records is one of the keys to successful management of a community pharmacy. The ratios calculated from the financial information are not inflexible determinants of success or failure but, rather, serve as general indicators of performance at one point in time. It is suggested that a compilation of these ratios may prove more beneficial than any single ratio. Comparisons can be made with the values to be found in Tables 23 through 27.

Liquidity or Short-Term Capitalization

Liquidity measures the pharmacy's ability to meet its current obligations and reflects the relationship between the store's short-term financial obligations (current liabilities) and the source of funds available to meet these requirements (current assets).

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

The "current ratio" is determined by dividing the current assets (cash, notes and accounts receivable, and inventory) by the current liabilities (accounts and notes payable which fall due within one year). Some observers believe that a current ratio of 2 to 1 is appropriate for many businesses. This value would allow the current assets to shrink 50% and still cover the current obligations.

The current ratio is a measure not only of the pharmacy's liquidity but also of the margin of safety that management maintains in order to allow for the inevitable unevenness in the flow of funds during the year.

A creditor would like to see a high current ratio; this would indicate a wide margin of safety for any claims against the business. However, a very high ratio may indicate that the manager is not utilizing funds in the most productive way. The inventory, accounts receivable, and cash investment may be higher than necessary and therefore not generating an adequate return.

Table 23 gives an average current ratio of 3.0 to 1 for LILLY DIGEST pharmacies, with newer operations having lower ratios than established pharmacies.

Profitability

Profitability is the measuring stick used to evaluate how effective the manager has been in increasing the owner's equity.

$$\text{Net Profit on Net Sales} = \frac{\text{Net Profit (before Taxes)}}{\text{Annual Sales}}$$

Net profit as a percentage of sales is a widely used measure of profitability. Year-to-year comparisons can be made to discover whether increased profits were due only to increased sales or whether a larger percentage of sales revenue was accounted for in the net profit figure. A discussion of the subject appears on page 36. This measure of profitability is most useful in connection with another standard ratio—return on investment.

$$\text{Return on Investment (Return on Equity)} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Net worth is the amount of owner's equity and is the difference between total assets and total liabilities. The resulting figure is then divided into net profit (before taxes). In recent years, the return-on-equity calculation has been considered the broadest measure of overall performance, since it evaluates how well funds, as supplied by the owners, are being utilized.

Some individuals think that a more accurate indicator of investment return can be found in the return on total investment.

$$\text{Return on Total Investment} = \frac{\text{Net Profit (before Taxes)}}{\text{Owner's Equity + Long-Term Liabilities}}$$

Net profit on total investment looks at income in relation to the total of the permanent funds invested in the business. It makes no distinction between owner's equity and borrowed capital. The return-on-total-investment ratio is a measure of how well management has used all these permanent funds.

Solvency or Long-Term Capitalization

Solvency is calculated by lenders in estimating the borrowing potential of a firm. Solvency refers to the ability of a pharmacy to meet the repayment schedule on long-term obligations.

$$\text{Debt/Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

A pharmacy in which the total debt exceeds the owner's equity is quite vulnerable to sharp or dramatic changes in the operation. Such changes could be caused by a sudden and prolonged drop in sales or a rise in expenses. When the debt/equity ratio is low in comparison with that in similar operations, the pharmacy may not be leveraged to best advantage.

Net Sales to Net Worth

This ratio examines the productivity of equity in terms of generating sales. A high ratio may imply inadequate owner's capitalization or, put another way, a highly leveraged firm. When the ratio is low, the operation is not obtaining full use of its funds, and the owner's investment has become stagnant.

Funded Debt to Net Working Capital

Funded debts are long-term obligations such as mortgages, chattel mortgages, term notes, and other notes not maturing within one year. If funded debt is divided by net working capital, a ratio is obtained which is helpful in determining one's ability to borrow. When the percentage is low, there is less reliance on funded debt for working capital, and the owner is in a better financial position to borrow funds.

$$\text{Average Payable Period} = \frac{\text{Outstanding Accounts Payable}}{\text{Annual Purchases}} \times 365$$

This ratio expresses the number of days outstanding in accounts payable and measures the extent to which a business is operating on suppliers' capital. A higher-than-average value may imply that the pharmacy is not taking suppliers' cash discounts. This form of credit is the most easily obtained, but it is also one of the most expensive sources of funds when the lost discounts are considered.

Table 22 summarizes the balance sheet data submitted by 1,178 pharmacies. When compared with 1982 data, net working capital increased by $2,464 (up 3.8%) as the result of a $3,803 rise in current assets (up 4%) and a $1,339 increase in current liabilities (up 4.2%). Net worth rose by $2,401 (up 3.5%) during 1983; as a percent of sales, it declined from 16.2% to 15.8%. The growth in net profit before taxes (up 8.1%) produced a greater return on investment of 21.2% as compared with 20.3% for the previous year.

Financial ratio figures for pharmacies contributing their 1983 operating data to the LILLY DIGEST are presented in Table 23. These statistics are arranged by store age so that more definitive comparisons can be made.

Table 22 *Current trends in balance sheet information*

Averages per Pharmacy	December 31,1983 (1,178 Pharmacies)	December 31,1982 (1,173 Pharmacies)	Amount and Percent of Change
Assets			
Current assets			
Cash	$ 15,096— 12.2%	$ 14,535— 12.2%	+$ 561— 3.9%
Accounts receivable	16,656— 13.5%	15,888— 13.4%	+$ 768— 4.8%
Inventory	68,190— 55.3%	65,716— 55.2%	+$ 2,474— 3.8%
Total current assets	$ 99,942— 81.0%	$ 96,139— 80.8%	+$ 3,803— 4.0%
Fixed assets			
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	16,750— 13.6%	15,878— 13.3%	+$ 872— 5.5%
Other assets			
Prepaid expenses, deposits, etc.	6,654— 5.4%	6,950— 5.9%	−$ 296— 4.3%
Total assets*	$123,346—100.0%	$118,967—100.0%	+$ 4,379— 3.7%
Liabilities			
Current and accrued liabilities			
Accounts payable	$ 19,204— 15.6%	$ 18,373— 15.4%	+$ 831— 4.5%
Notes payable (within one year)	6,825— 5.5%	6,709— 5.6%	+$ 116— 1.7%
Accrued expenses and other liabilities	6,927— 5.6%	6,535— 5.5%	+$ 392— 6.0%
Total current and accrued liabilities	$ 32,956— 26.7%	$ 31,617— 26.5%	+$ 1,339— 4.2%
Long-term liabilities			
Notes payable (later than one year)	19,750— 16.0%	19,111— 16.1%	+$ 639— 3.3%
Total liabilities	$ 52,706— 42.7%	$ 50,728— 42.6%	+$ 1,978— 3.9%
Net Worth	70,640— 57.3%	68,239— 57.4%	+$ 2,401— 3.5%
Total liabilities and net worth*	$123,346—100.0%	$118,967—100.0%	+$ 4,379— 3.7%
Net working capital	$ 66,986	$ 64,522	+$ 2,464— 3.8%
Sales	$446,556	$420,955	+$25,601— 6.1%
Purchases	$301,467	$281,481	+$19,986— 7.1%
Net profit (before taxes)	$ 14,979	$ 13,859	+$ 1,120— 8.1%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Table 23 *Current financial ratios by pharmacy age*

	Pharmacy Age under 2 Years (61 Pharmacies)	Pharmacy Age 2 to 5 Years (213 Pharmacies)	Pharmacy Age 5 to 10 Years (281 Pharmacies)	Pharmacy Age over 10 Years (623 Pharmacies)	Total (1,178 Pharmacies)
Current assets to current liabilities	3.1 times	2.8 times	2.8 times	3.2 times	3.0 times
Quick assets to current liabilities	0.9 times	0.8 times	0.8 times	1.1 times	1.0 times
Net sales to inventory	5.9 times	6.4 times	6.8 times	6.5 times	6.5 times
Inventory to net working capital	104.7%	110.9%	108.6%	97.3%	101.8%
Current debt to inventory	44.8%	49.1%	50.9%	47.4%	48.3%
Net sales to net working capital	6.2 times	7.1 times	7.3 times	6.4 times	6.7 times
Net profit (before taxes) on net sales	3.2%	4.2%	3.0%	3.3%	3.4%
Net profit (before taxes) on net worth	30.7%	33.5%	21.9%	18.4%	21.2%

Table 24 *Balance sheet and financial ratios by pharmacy age as of December 31, 1983—sales under $200,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (52 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (75 Pharmacies)	Percent of Sales	Total (127 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 4,220— 9.1%	2.9%	$ 6,196— 11.9%	3.8%	$ 5,387— 10.8%	3.5%
Accounts receivable	4,073— 8.8%	2.8%	5,401— 10.4%	3.3%	4,858— 9.8%	3.1%
Inventory	28,556— 62.0%	20.0%	30,357— 58.2%	18.4%	29,619— 59.6%	19.0%
Total current assets	$ 36,851— 79.9%	25.7%	$ 41,954— 80.5%	25.5%	$ 39,864— 80.2%	25.6%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	8,322— 18.0%	5.8%	6,496— 12.5%	4.0%	7,244— 14.6%	4.7%
Other assets						
Prepaid expenses, deposits, etc.	971— 2.1%	0.7%	3,691— 7.0%	2.2%	2,578— 5.2%	1.6%
Total assets*	$ 46,144—100.0%	32.2%	$ 52,141—100.0%	31.7%	$ 49,686—100.0%	31.9%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 7,167— 15.5%	5.0%	$ 4,566— 8.8%	2.8%	$ 5,631— 11.3%	3.6%
Notes payable (within one year)	3,395— 7.4%	2.4%	2,118— 4.1%	1.3%	2,641— 5.3%	1.7%
Accrued expenses and other liabilities	747— 1.6%	0.5%	1,514— 2.9%	0.9%	1,200— 2.4%	0.8%
Total current and accrued liabilities	$ 11,309— 24.5%	7.9%	$ 8,198— 15.8%	5.0%	$ 9,472— 19.0%	6.1%
Long-term liabilities						
Notes payable (later than one year)	15,612— 33.8%	10.9%	6,029— 11.6%	3.7%	9,953— 20.0%	6.4%
Total liabilities	$ 26,921— 58.3%	18.8%	$ 14,227— 27.4%	8.7%	$ 19,425— 39.0%	12.5%
Net Worth	19,223— 41.7%	13.4%	37,914— 72.6%	23.0%	30,261— 61.0%	19.4%
Total liabilities and net worth*	$ 46,144—100.0%	32.2%	$ 52,141—100.0%	31.7%	$ 49,686—100.0%	31.9%
Net working capital	$ 25,542	17.8%	$ 33,756	20.5%	$ 30,392	19.5%
Sales	$143,205	100.0%	$164,451	100.0%	$155,752	100.0%
Purchases	$ 95,448	66.7%	$105,904	64.4%	$101,623	65.2%
Net profit (before taxes)	$ 2,628	1.8%	$ 3,169	1.9%	$ 2,947	1.9%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	3.3 times	5.1 times	4.2 times
Quick assets to current liabilities	0.7 times	1.4 times	1.1 times
Net sales to inventory	5.0 times	5.4 times	5.3 times
Inventory to net working capital	111.8%	89.9%	97.5%
Current debt to inventory	39.6%	27.0%	32.0%
Net sales to net working capital	5.6 times	4.9 times	5.1 times
Net profit (before taxes) on net sales	1.8%	1.9%	1.9%
Net profit (before taxes) on net worth	13.7%	8.4%	9.7%

The balance sheet and financial ratios data (Tables 24 through 27) are arranged according to the following sales-volume categories—under $200,000, $200,000 to $400,000, $400,000 to $600,000, and over $600,000. Pharmacies within each sales category are also divided according to age. The primary column for comparison in each category is the one that expresses the components as percents of sales (printed in color). The balance sheet statistics show that, regardless of sales volume,

Table 25 *Balance sheet and financial ratios by pharmacy age as of December 31, 1983—sales $200,000 to $400,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (130 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (314 Pharmacies)	Percent of Sales	Total (444 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 8,511— 10.0%	2.9%	$ 11,551— 12.7%	3.7%	$ 10,661— 12.0%	3.5%
Accounts receivable	9,245— 10.9%	3.1%	11,143— 12.3%	3.6%	10,588— 11.9%	3.5%
Inventory	48,327— 57.1%	16.2%	52,879— 58.4%	17.1%	51,545— 58.0%	16.8%
Total current assets	$ 66,083— 78.0%	22.2%	$ 75,573— 83.4%	24.4%	$ 72,794— 81.9%	23.8%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	15,227— 18.0%	5.1%	11,781— 13.0%	3.8%	12,789— 14.4%	4.2%
Other assets						
Prepaid expenses, deposits, etc.	3,402— 4.0%	1.1%	3,294— 3.6%	1.1%	3,327— 3.7%	1.0%
Total assets*	$ 84,712—100.0%	28.4%	$ 90,648—100.0%	29.3%	$ 88,910—100.0%	29.0%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 11,772— 13.9%	3.9%	$ 12,516— 13.8%	4.0%	$ 12,298— 13.8%	4.0%
Notes payable (within one year)	7,357— 8.7%	2.5%	5,165— 5.7%	1.7%	5,807— 6.5%	1.9%
Accrued expenses and other liabilities	3,427— 4.0%	1.1%	3,851— 4.2%	1.2%	3,727— 4.2%	1.2%
Total current and accrued liabilities	$ 22,556— 26.6%	7.5%	$ 21,532— 23.7%	6.9%	$ 21,832— 24.5%	7.1%
Long-term liabilities						
Notes payable (later than one year)	25,609— 30.2%	8.6%	11,200— 12.4%	3.6%	15,419— 17.3%	5.0%
Total liabilities	$ 48,165— 56.8%	16.1%	$ 32,732— 36.1%	10.5%	$ 37,251— 41.8%	12.1%
Net Worth	36,547— 43.2%	12.3%	57,916— 63.9%	18.8%	51,659— 58.2%	16.9%
Total liabilities and net worth*	$ 84,712—100.0%	28.4%	$ 90,648—100.0%	29.3%	$ 88,910—100.0%	29.0%
Net working capital	$ 43,527	14.6%	$ 54,041	17.5%	$ 50,962	16.6%
Sales	$298,265	100.0%	$309,339	100.0%	$306,097	100.0%
Purchases	$203,682	68.3%	$206,211	66.7%	$205,470	67.1%
Net profit (before taxes)	$ 10,782	3.6%	$ 10,094	3.3%	$ 10,295	3.4%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	2.9 times	3.5 times	3.3 times
Quick assets to current liabilities	0.8 times	1.1 times	1.0 times
Net sales to inventory	6.2 times	5.8 times	5.9 times
Inventory to net working capital	111.0%	97.8%	101.1%
Current debt to inventory	46.7%	40.7%	42.4%
Net sales to net working capital	6.9 times	5.7 times	6.0 times
Net profit (before taxes) on net sales	3.6%	3.3%	3.4%
Net profit (before taxes) on net worth	29.5%	17.4%	19.9%

as a pharmacy matures to over five years of age, long-term liabilities decrease both dollarwise and as a percent of sales. As a pharmacy matures, it generates adequate funds to retire debt and build up net worth.

Pharmacies generally show lower inventory levels as a percent of sales as the operation becomes older; this suggests that management has gained expertise in inventory control and is more closely correlating purchases with sales activity.

Table 26 *Balance sheet and financial ratios by pharmacy age as of December 31, 1983—sales $400,000 to $600,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (63 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (278 Pharmacies)	Percent of Sales	Total (341 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 15,931— 11.4%	3.3%	$ 16,586— 12.3%	3.3%	$ 16,465— 12.2%	3.3%
Accounts receivable	14,813— 10.6%	3.1%	20,440— 15.2%	4.1%	19,401— 14.3%	3.9%
Inventory	73,212— 52.6%	15.4%	75,297— 56.1%	15.2%	74,911— 55.4%	15.2%
Total current assets	$103,956— 74.6%	21.8%	$112,323— 83.6%	22.6%	$110,777— 81.9%	22.4%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	23,950— 17.2%	5.0%	15,024— 11.2%	3.0%	16,673— 12.3%	3.4%
Other assets						
Prepaid expenses, deposits, etc.	11,365— 8.2%	2.3%	7,078— 5.2%	1.4%	7,870— 5.8%	1.6%
Total assets*	$139,271—100.0%	29.1%	$134,425—100.0%	27.0%	$135,320—100.0%	27.4%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 20,125— 14.5%	4.2%	$ 21,655— 16.1%	4.4%	$ 21,372— 15.8%	4.3%
Notes payable (within one year)	9,960— 7.2%	2.1%	6,240— 4.6%	1.3%	6,927— 5.1%	1.4%
Accrued expenses and other liabilities	7,463— 5.4%	1.6%	8,121— 6.0%	1.6%	7,999— 5.9%	1.6%
Total current and accrued liabilities	$ 37,548— 27.1%	7.9%	$ 36,016— 26.7%	7.3%	$ 36,298— 26.8%	7.3%
Long-term liabilities						
Notes payable (later than one year)	42,362— 30.4%	8.9%	17,186— 12.8%	3.5%	21,837— 16.1%	4.4%
Total liabilities	$ 79,910— 57.5%	16.8%	$ 53,202— 39.5%	10.8%	$ 58,135— 42.9%	11.7%
Net Worth	59,361— 42.5%	12.3%	81,223— 60.5%	16.2%	77,185— 57.1%	15.7%
Total liabilities and net worth*	$139,271—100.0%	29.1%	$134,425—100.0%	27.0%	$135,320—100.0%	27.4%
Net working capital	$ 66,408	13.9%	$ 76,307	15.4%	$ 74,479	15.1%
Sales	$477,782	100.0%	$497,062	100.0%	$493,500	100.0%
Purchases	$327,197	68.5%	$332,608	66.9%	$331,608	67.2%
Net profit (before taxes)	$ 22,338	4.7%	$ 15,314	3.1%	$ 16,612	3.4%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	2.8 times	3.1 times	3.1 times
Quick assets to current liabilities	0.8 times	1.0 times	1.0 times
Net sales to inventory	6.5 times	6.6 times	6.6 times
Inventory to net working capital	110.2%	98.7%	100.6%
Current debt to inventory	51.3%	47.8%	48.5%
Net sales to net working capital	7.2 times	6.5 times	6.6 times
Net profit (before taxes) on net sales	4.7%	3.1%	3.4%
Net profit (before taxes) on net worth	37.6%	18.9%	21.5%

Table 27 *Balance sheet and financial ratios by pharmacy age as of December 31, 1983—sales over $600,000*

Averages per Pharmacy	Pharmacy Age under 5 Years (29 Pharmacies)	Percent of Sales	Pharmacy Age over 5 Years (237 Pharmacies)	Percent of Sales	Total (266 Pharmacies)	Percent of Sales
Assets						
Current assets						
Cash	$ 24,084— 11.7%	3.2%	$ 25,539— 12.8%	3.4%	$ 25,381— 12.6%	3.3%
Accounts receivable	25,573— 12.4%	3.4%	29,306— 14.7%	3.9%	28,899— 14.4%	3.8%
Inventory	107,685— 52.4%	14.3%	105,537— 52.7%	13.8%	105,771— 52.8%	14.0%
Total current assets	$157,342— 76.5%	20.9%	$160,382— 80.2%	21.1%	$160,051— 79.8%	21.1%
Fixed assets						
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	34,138— 16.6%	4.5%	27,247— 13.6%	3.6%	27,998— 14.0%	3.7%
Other assets						
Prepaid expenses, deposits, etc.	14,124— 6.9%	2.0%	12,406— 6.2%	1.6%	12,593— 6.2%	1.6%
Total assets*	$205,604—100.0%	27.4%	$200,035—100.0%	26.3%	$200,642—100.0%	26.4%
Liabilities						
Current and accrued liabilities						
Accounts payable	$ 31,120— 15.1%	4.1%	$ 34,839— 17.4%	4.6%	$ 34,433— 17.2%	4.5%
Notes payable (within one year)	11,966— 5.8%	1.6%	10,197— 5.1%	1.3%	10,390— 5.2%	1.4%
Accrued expenses and other liabilities	11,432— 5.6%	1.5%	13,898— 6.9%	1.8%	13,629— 6.8%	1.8%
Total current and accrued liabilities	$ 54,518— 26.5%	7.2%	$ 58,934— 29.4%	7.7%	$ 58,452— 29.2%	7.7%
Long-term liabilities						
Notes payable (later than one year)	67,672— 32.9%	9.0%	24,245— 12.1%	3.2%	28,980— 14.4%	3.8%
Total liabilities	$122,190— 59.4%	16.2%	$ 83,179— 41.5%	10.9%	$ 87,432— 43.6%	11.5%
Net Worth	83,414— 40.6%	11.2%	116,856— 58.5%	15.4%	113,210— 56.4%	14.9%
Total liabilities and net worth*	$205,604—100.0%	27.4%	$200,035—100.0%	26.3%	$200,642—100.0%	26.4%
Net working capital	$102,824	13.7%	$101,448	13.3%	$101,599	13.4%
Sales	$751,522	100.0%	$760,667	100.0%	$759,670	100.0%
Purchases	$514,032	68.4%	$519,020	68.2%	$518,476	68.3%
Net profit (before taxes)	$ 34,155	4.5%	$ 25,506	3.4%	$ 26,449	3.5%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

Financial Ratios			
Current assets to current liabilities	2.9 times	2.7 times	2.7 times
Quick assets to current liabilities	0.9 times	0.9 times	0.9 times
Net sales to inventory	7.0 times	7.2 times	7.2 times
Inventory to net working capital	104.7%	104.0%	104.1%
Current debt to inventory	50.6%	55.8%	55.3%
Net sales to net working capital	7.3 times	7.5 times	7.5 times
Net profit (before taxes) on net sales	4.5%	3.4%	3.5%
Net profit (before taxes) on net worth	40.9%	21.8%	23.4%

Table 28 *Ten-year trends*

	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales	Percent of Sales
Assets										
Current assets										
Cash	3.4%	3.5%	3.2%	3.4%	3.3%	3.5%	3.8%	3.8%	4.1%	3.9%
Accounts receivable	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.9%	3.9%	4.0%	4.2%
Inventory	15.3%	15.5%	16.0%	16.4%	16.4%	16.5%	16.4%	16.5%	16.5%	16.9%
Total current assets	22.4%	22.8%	23.0%	23.6%	23.5%	23.8%	24.1%	24.2%	24.6%	25.0%
Fixed assets										
Fixtures and equipment and leasehold improvements (net after reserve for depreciation)	3.8%	3.8%	3.7%	3.9%	3.9%	3.9%	3.8%	3.9%	3.7%	3.7%
Other assets										
Prepaid expenses, deposits, etc.	1.4%	1.7%	1.5%	1.5%	1.5%	1.5%	1.4%	1.3%	1.6%	1.5%
Total assets*	27.6%	28.3%	28.2%	29.0%	28.9%	29.2%	29.3%	29.4%	29.9%	30.2%
Liabilities										
Current and accrued liabilities										
Accounts payable	4.3%	4.4%	4.5%	4.6%	4.6%	4.7%	4.7%	4.9%	4.9%	5.3%
Notes payable (within one year)	1.5%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%
Accrued expenses and other liabilities	1.6%	1.6%	1.6%	1.5%	1.5%	1.6%	1.5%	1.5%	1.6%	1.7%
Total current and accrued liabilities	7.4%	7.6%	7.7%	7.7%	7.7%	7.9%	7.8%	8.0%	8.0%	8.5%
Long-term liabilities										
Notes payable (later than one year)	4.4%	4.5%	4.3%	4.5%	4.2%	4.6%	4.1%	4.1%	3.7%	4.2%
Total liabilities	11.8%	12.1%	12.0%	12.2%	11.9%	12.5%	11.9%	12.1%	11.7%	12.7%
Net Worth	15.8%	16.2%	16.2%	16.8%	17.0%	16.7%	17.4%	17.3%	18.2%	17.5%
Total liabilities and net worth*	27.6%	28.3%	28.2%	29.0%	28.9%	29.2%	29.3%	29.4%	29.9%	30.2%
Net working capital	15.0%	15.3%	15.3%	15.9%	15.7%	15.9%	16.2%	16.3%	16.6%	16.5%
Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Purchases	67.5%	66.9%	66.7%	66.6%	66.6%	67.0%	66.5%	66.2%	66.0%	66.0%
Net profit (before taxes)	3.4%	3.3%	3.3%	3.7%	3.5%	3.6%	3.6%	3.8%	3.7%	3.8%

*Excludes land, buildings, investments, and goodwill and corresponding liabilities

According to balance sheet information, net working capital tends to rise, both in dollars and as a percent of sales, in stores that have been in operation longer than five years.

Ten-year trends of balance sheet data expressed as percentages of sales are presented in Table 28. Fixed assets have been relatively constant at about 3.8% during the decade, which suggests that substantial outlays have not been required for fixtures and equipment to handle the growing sales volume. It is possible, however, that high interest rates for borrowed funds contributed to the decision to delay major capital investment. Over the period, the declines in net worth and net working capital may reflect the general downtrend in net profit as a percent of sales.

Lilly Analysis Service Participants—One Year Later

Statistics for pharmacies furnishing their operating information for both 1982 and 1983 are summarized in Table 29. The right-hand column shows figures for pharmacies participating in the LILLY DIGEST for the first time.

Comparison of the same stores' two-year data shows increased sales volume and prescription activity during 1983. The cost of goods sold, as a percent of sales, rose slightly for these participants. It is interesting to see that gross margin, percentagewise, was one point higher for these stores as compared with outlets reporting for only one year.

Total expenses declined substantially as a percent of sales for the two-year group and more than offset the fall in gross margin, so that net profit advanced to 3% of sales in 1983. This figure was also higher than the net profit recorded for the average LILLY DIGEST pharmacy (Table 1).

Two-year participants increased their average total income, both in dollars and as a percent of sales. This statistic was higher for the two-year group than for pharmacies that reported for the first time.

The average prescription charge went up 10.8% during 1983 in the two-year stores. This increase, accompanied by a 3.7% rise in prescription activity, accounted for the 15% growth in prescription sales.

It appears from the statistics that the management of pharmacies submitting data for consecutive years implemented action to improve operations. One reason for this may be that the process of reviewing the Lilly Analysis Service report promotes awareness and understanding of the operating facets of the business.

Table 29 *Summary of operating figures in pharmacies reporting two years and one year*

Averages per Pharmacy	861 Pharmacies Reporting Both Years 1983	1982	Amount and Percent of Change	686 Pharmacies Reporting Only in 1983
Sales				
Prescription	$315,799— 58.9%	$274,599— 56.1%	+$41,200—15.0%	$301,265— 58.0%
Other	220,412— 41.1%	214,956— 43.9%	+$ 5,456— 2.5%	218,378— 42.0%
Total	$536,211—100.0%	$489,555—100.0%	+$46,656— 9.5%	$519,643—100.0%
Cost of goods sold	356,235— 66.4%	323,549— 66.1%	+$32,686—10.1%	350,457— 67.4%
Gross margin	$179,976— 33.6%	$166,006— 33.9%	+$13,970— 8.4%	$169,186— 32.6%
Expenses				
Proprietor's or manager's salary	$ 32,668— 6.1%	$ 29,656— 6.1%	+$ 3,012—10.2%	$ 30,655— 5.9%
Employees' wages	59,875— 11.2%	56,359— 11.5%	+$ 3,516— 6.2%	54,121— 10.4%
Rent	12,624— 2.4%	11,884— 2.4%	+$ 740— 6.2%	12,321— 2.4%
Miscellaneous operating costs	58,882— 10.9%	54,206— 11.1%	+$ 4,676— 8.6%	57,124— 11.0%
Total expenses	$164,049— 30.6%	$152,105— 31.1%	+$11,944— 7.9%	$154,221— 29.7%
Net profit (before taxes)	$ 15,927— 3.0%	$ 13,901— 2.8%	+$ 2,026—14.6%	$ 14,965— 2.9%
Total income of self-employed proprietor (before taxes on income and profits)	$ 48,595— 9.1%	$ 43,557— 8.9%	+$ 5,038—11.6%	$ 45,620— 8.8%
Number of prescriptions dispensed	28,808	27,778	+ 1,030— 3.7%	27,898
Prescription charge	$10.96	$9.89	+$ 1.07—10.8%	$10.80

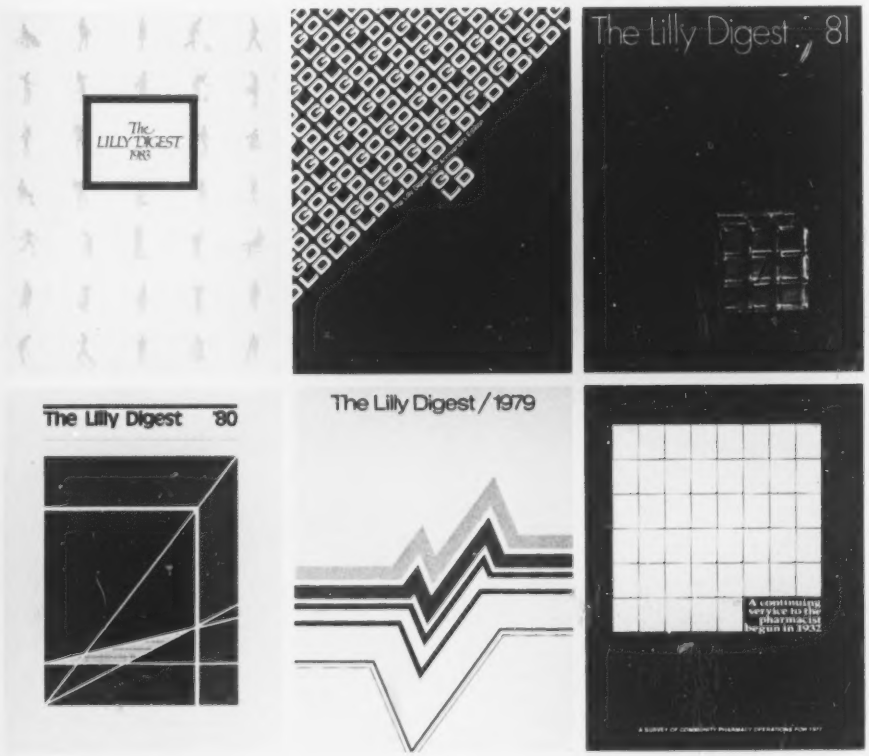
The Lilly Analysis Service

A pharmacy's financial statement reflects the strengths and weaknesses of management's policies. It is extremely important that the information found in these statements be properly interpreted and utilized. Pharmacy managements can more easily find problem areas and provide solutions by reviewing a pharmacy's financial figures on a regular basis. Such a methodical approach identifies problems early when they can be corrected easily, rather than waiting for them to become unwieldy and difficult to solve. A constant need for good information is at the heart of a well-managed business.

The Lilly Analysis Service is designed to support management's financial review. Operating data from any community pharmacy will be analyzed at no charge. The service is available to any pharmacist upon request, and all information is kept strictly confidential.

After a pharmacy's figures are received, they are audited and computerized. The printouts are then analyzed by staff experts, the comments are typed, and the completed reports are mailed directly to the designated addresses. Names need not be given if the address is adequate.

The object of the report is to identify areas that may present potential problems and, if appropriate, offer suggestions for improvement that may be considered. Operating areas that seem to be performing quite satisfactorily will also be identified. To receive a *free personal and confidential* analysis, contact the Lilly Analysis Service, Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.


The LILLY DIGEST 1983
The Lilly Digest '81
The Lilly Digest '80
The Lilly Digest / 1979
A continuing service to the pharmacist begun in 1932

In Conclusion

During the past quarter century, total sales in the average LILLY DIGEST pharmacy have risen from $134,238 to $528,864 (up 294%); prescription sales increased from $45,319 to $309,354 (up 583%); and total income for the proprietor moved from $18,540 to $47,275—an advance of 155%. The prescription department has expanded markedly over the period, as illustrated by the rise in its overall sales contribution— from about 34% in 1959 to over 58% during 1983. Such impressive growth in professional services is a tribute to independent community pharmacy practice and its ongoing involvement in community health care. The operation as a primary health center is a growing concept and an integral part of pharmacy's economic future. Recent data suggest that the home health care market offers yet another opportunity for pharmacy practitioners. The conclusion is obvious—the success of the professional area will determine the success of the entire business.

In the future, independent community pharmacy management will continue to be faced with the historical challenge of containing operating costs. Expense items must be controlled if net profit is to keep pace with expanding sales volume in order to assure continuation of the operation and, with it, professional services for patients.

If you would like to have the Lilly Analysis Service analyze your financial information for 1984, just complete the participation form that will be **mailed to you early in January of 1985.** If you would like an immediate analysis of your present financial information, participation forms are available from Department MC-698, Eli Lilly and Company, Indianapolis, Indiana 46285.

If you wish to perform your own analysis, this work sheet will be useful . . . fill in and compare

Income and Expense Statement	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see page 23)	Notes (▲ or ▼)
Net sales	$	%	%	%	
Cost of goods sold	$	%	%	%	
Gross margin (net sales less cost of goods sold)	$	%	%	%	
Expenses					
Proprietor's or manager's salary	$	%	%	%	
Employees' wages	$	%	%	%	
Rent	$	%	%	%	
Heat, light, and power	$	%	%	%	
Accounting, legal, and other professional fees	$	%	%	%	
Taxes (except on buildings, income, and profit) and licenses	$	%	%	%	
Insurance (except on buildings)	$	%	%	%	
Interest paid	$	%	%	%	
Repairs	$	%	%	%	
Delivery	$	%	%	%	
Advertising	$	%	%	%	
Depreciation (except on buildings)	$	%	%	%	
Bad debts charged off	$	%	%	%	
Telephone	$	%	%	%	
Miscellaneous	$	%	%	%	
Total expenses	$	%	%	%	
Net operating profit (gross margin less total expenses)	$	%	%	%	

Balance Sheet	Current Data (Dollars)	Current Data (% of Sales)	Last Year's Data (% of Sales)	Lilly Digest Data (Comparable Category) (see pages 46-51)	Notes (▲ or ▼)
Current assets	$	%	%	%	
Fixed assets	$	%	%	%	
Total assets	$	%	%	%	
Current liabilities	$	%	%	%	
Long-term liabilities	$	%	%	%	
Total liabilities	$	%	%	%	
Net worth	$	%	%	%	

Other Calculations	Current Data	Last Year's Data	Lilly Digest Data (Comparable Categories) (see pages 23 and 46-51)	Notes (▲ or ▼)
Inventory turnover	times	times	times	
Prescription sales/prescription inventory	$	$	$	
Average prescription charge	$	$	$	
Number of prescriptions				
Current assets/current liabilities	times	times	times	
Net sales/net working capital	times	times	times	
Long-term liabilities/net working capital	%	%	%	
Accounts payable outstanding	days	days	days	
Net profit/net worth	%	%	%	